CITY COUNCIL MINUTES
May 1, 2013

The Honorable Council of the City of Evansville met for a special meeting at 5:00 p.m. on Wednesday, May 1, 2013 in the City Council Chambers, Room 301 Civic Center Complex, Evansville, Indiana, with President Connie Robinson presiding. The following business was conducted.

These minutes are not intended to be a verbatim transcript. Audiotapes of this meeting are on file in the City Clerk's Office.

ROLL CALL:
Present: McGinn, Mosby, Brinkerhoff-Riley, Friend, Lindsey, Adams, O'Daniel, Weaver, Robinson.

There being nine (9) members present and zero (0) members absent and nine (9) members representing a quorum, I hereby declare this session of the Common Council officially open.

PLEDGE OF ALLEGIANCE
This evening the pledge of allegiance is led by Councilman Lindsey.

Fellow Councilmen and those in the audience, welcome to the May 1, 2013 special meeting of the Common Council.

COUNCIL ATTORNEY
This evening Scott Danks is City Council Attorney.

SERGEANT AT ARMS
This evening Officer Taylor is Sergeant at Arms.

REPORTS AND COMMUNICATIONS
ON YOUR DESK THIS EVENING:
*Meeting Agenda for May 1, 2013 City Council Meeting.
*Information from Umbaugh on the Sewage Works Revenue Refunding Bonds.

President Robinson: Can I have a motion to receive, file and make these reports and communications a part of the minutes of the meeting?

Councilwoman Mosby moved and Councilman Weaver seconded the motion to receive, file and make these reports and communications a part of the minutes of the meeting. Voice vote. So ordered.

Let the minutes show that Councilman Friend is here.

Can you hear me out there? Okay, Laura you want…the mics are not working.

President Robinson: Did they do something whenever…

Councilwoman Mosby: The microphone is not working.

President Robinson: The microphones…okay.

NEW BUSINESS
*Johnson Controls

I think we'll start off with Mayor Winnecke.

(Inaudible)

Mayor Winnecke: That's all right I'll start. My stuff is the least important graphic.

Madam President and fellow members of the Council, thanks for a second night this week to allow us to come before you to offer information on an important project for the City of Evansville.

Tonight we have a team of presenters ready to brief Council on the Smart City 2.0 initiative, which is essentially a guaranteed savings contract with Johnson Controls. Ted Ziemer, our Corporate Counsel, will discuss the guaranteed savings statute and will walk us through the process that the City has undertaken to date. Allen Mounts, Director of Utility, will discuss the scope of the project and provide insight into the program benefits. Bob Clifford with Umbaugh and Associates will provide his analysis on the financial and to address some concerns that have been raised over the past several weeks. Finally, Greg Wathen with the Economic Development Coalition of Southwest Indiana and Wendell Hibdon with Local 136 will provide their perspective on why this project should move forward.

As you all know this project has evolved since the City signed the original contract in late 2011. Upon taking office, our administration evaluated the project and approached Johnson Controls with revisions to the original contract. We worked collaboratively to improve the project, thus resulting in the title Smart City 2.0. We feel that the revised initiative as a renewed focus on creating jobs and creating economic development opportunities for our City while investing in our water meter infrastructure and making improvements to our treatment plants. Also we have restructured the contract to take it from a net savings of $87,000 to $9,500,000 over the life of the contract,

So what is this all about? Put simply, saving money and improving services of our utility. We will be making investments in the utility that save enough money every year to cover the debt. It is important to note that the process is followed in accordance with State statute that really encourages this type of investment.

As I have mentioned previously, the scope has been adjusted to focus on projects with a really good payback, and most importantly, a focus on creating jobs, 170 jobs to be specific.

Lastly, I would like to be very clear; this project is independent of the EPA Consent Degree and associated rate increases that will be mandated by the federal government. This project will have no impact on water or sewer rates and creates additional funding sources for requirements related to the Consent Decree.

With that opening, I'd like to introduce you to Mr. Ziemer to walk you through his section. Thank you.

Corporate Counsel Ziemer: Good evening Madam President, members of Council, I'm Ted Ziemer, Jr., Corporate Counsel of the City of Evansville. I'm just going to, very briefly, run you through background information, if you will, regarding this program.

It's a guaranteed savings program, which is being done under Indiana Statute IC 36-1-12.5, which is a law of the State of Indiana that permits guaranteed savings programs under certain specified conditions and all of which have been met with regard to this particular project. This program has been used by the State of Indiana to procure various corporate improvements and it's been used by most of the large cities in the State of Indiana, Indianapolis, South Bend... man, that's small, I can't read that...Indianapolis, South Bend, Anderson, Columbus and Fort Wayne.

Evansville itself has used this program on at least four occasions for City buildings, the airport, the School Corporation, and the Parks Department. Most recently, in 2011, this program was used for acquisition of some improvements at the Central Dispatch office.

The program has been carefully reviewed by the staff, board members, accounting and legal of the Evansville Water & Sewer Utility to insure that it meets the requirements of the Indiana statute that authorizes the proceedings and basically under that the savings generated by the program must be sufficient to service the debt for the program without any increase in rates or other charges of the department.

Briefly, the time line for this program, there was a Request for Proposals issued by the Weinzapfel administration in February of 2011 and the winning proposal, if you will, was Johnson Controls, having been selected in June of 2011. Evansville worked with, the City of Evansville worked with Johnson Controls to develop the terms of the contract to be entered into between those two parties. That contract was signed in November of 2011, which I'm sure you all remember, and following that, also in 2011, a petition was filed with the Indiana Utility Regulatory Commission, or IURC, to get approval for the financing of the program. IURC ultimately denied the financing of this program as it was filed and they had two basic concerns: one...oh thanks Mayor...I bring him along to do that for me...let's see where I was before that happened...okay, sure...so after the contract was signed and the petition was filed with IURC, the petition was denied and that was for two reasons essentially. One, the IURC did not think that the Wi-Fi portion of the contract was appropriate for a Water & Sewer utility and second, they felt that the contract did not meet with what is called the 10% rule which is a rule in connection with this program which states that the savings must exceed the cost of the program or the debt to be financed by 10%. In other words, you need 110% of savings to match the cost.

After that happened the Water & Sewer Utility met and worked to revise the contract and the scope of the program so that two things would occur: one, the Wi-Fi portion of the program was deleted and the economics, if you will, of the program were revised so that as it was re-filed with the IURC, the surplus is expected to be 14% over the cost of servicing the debt, which is of course more than the 10%.

With that revised contract being filed with the IURC, it was reviewed by the OUCC who recommended approval of the program in February 2013 and ultimately the IURC approved going forward with financing for this contract in March of 2013 and that worked.

So what we have here is contract with Johnson Controls that has been supported by two administrations, the Weinzapfel administration and the Winnecke administration. Those mayors being, as you know, of two different parties.

It's a guaranteed savings...it still is a guaranteed savings program and the guaranteed savings will pay the debt incurred to finance the improvements under the contract. The contract, or the amended contract, taking out the Wi-Fi and increasing the percentage of surplus was unanimously approved by the Evansville Water & Sewer Utility in December of 2012.

Following that the request for approval, or petition for approval, of the financing for the amended contract was re-filed with the Indiana Water & Sewer Utility and the procedure started again. The office of the Utility Commission Councilor took a...vetted the program and all aspects of the financing in connection with the program and advertised for public comment. One comment was filed, only one, and that was filed by David Garrett as a ratepayer. As part of the review by the OUCC, they reviewed that comment, or comments I suppose would be a more correct way to put it, and apparently were not impressed because they recommended approval of this contract and the financing of this contract to the IURC. Following that, as I've said, in February of 2013, the IURC issued its order approving the financing for the contract.

In addition to what I've already told you, Johnson Controls has filed construction and performance bonds in connection with this project, which will last for the full duration of the project. The financial details of the project have been reviewed by the CPA firm of Umbaugh and Associates in Indianapolis. Testing of large meters for the program has been accomplished by the office...the company of M.E. Simpson of Valparaiso, IN and that company was used substantially for other testing purposes by the Evansville Water & Sewer Utility prior to any connection with Johnson Controls for the current project.

I guess I want to conclude by, and I know it's on you slide, but I'd like to read it for emphasis, this is in the order of the IURC of March 27, 2013 where the IURC states, *"Having reviewed the evidence presented in this cause, we find that the proposed capital improvements are reasonably necessary for the provision of adequate and efficient utility service and the proposed debt issuance is a reasonable method of financing the necessary improvements".* So with that I'd like to turn this presentation over to Allen Mounts, the Director of the Evansville Water & Sewer Utility. Thank you very much.

Allen Mounts: Madam President and Councilmembers, Allen Mounts, Director of Evansville Water & Sewer Utility.

You know as I think about what the utility does, it is probably the only product or service that is used by every citizen in Evansville today, the only product or service. We realize how important it is that it's safe and it's cost effective for our consumers here, and part of that component is that we bill accurately with the services that we provide through the water we provide. As we move forward with this initiative, we believe that the program we are putting into place will only enhance the reputation that we provide fair and accurate delivery services and the billings associated with that.

As Ted talked about before, there is no rate increase attached with this proposal coming before you. The Water & Sewer Utility stands on its own; it doesn't access any City funds, as you well

are aware. It doesn't access any tax funds. It's solely paid for by the revenue that we receive from our ratepayers.

So as we move forward, this initiative mitigates the need for any future rate increases. We are seeking...we will be seeking City Council approval for the funding and again, just to reiterate, it's not asking for additional funds, it's asking that restructure our expenses, based on expense reduction, as well as increase revenue from lost revenue to make the bonds payments for this initiative here.

The savings and additional revenue more than exceed, as has been mentioned before, the cost to pay the debt service on these capital improvements. The starting point for that is the guaranteed savings of 3.1 million dollars in the first year that result from energy initiatives, operation and maintenance initiatives, and recovery of lost revenue. Over the term, or life, of the contract, the total benefit will be 83 million dollars for the utility and I just want to stress again, under State statute, this has to be guaranteed...oh sorry...thank you very much Mayor. I'm much slower than Ted. So we have the guarantee that is a platform for this...but I hope as you listen to my story today, you see that we're going to have plenty of cushion there.

So some of the facts: I mentioned before that the project savings are more than enough to cover the debt service, in fact it's 9.5 million dollars in savings over the life of the agreement. The prior, original contract was utilizing virtually all the savings and has a net benefit of $87,000. We've gone from $87,000 in the original contract, restructured it to where its 9.5 million dollars today.

It doesn't impact the general fund or tax revenue and we've done everything we need to comply with the statutes and that's been recognized by the IURC and we're utilizing this special provision by State statute in order to move forward. We have responded, to not only the OUCC and the IURC, to numerous requests but we've responded to numerous requests from City Council members. I tell you it feels like there have been hundreds of questions I've responded to. That's probably an overstatement but quite a few questions there. We've had several meetings as well including meetings with David Garrett and responding to questions that David Garrett raised as well. As Ted mentioned, Mr. Garrett was the only petitioner to object to the OUCC in the two...in both cases we had with the IURC.

To put into context the individuals that have weighed in on this matter, we have the Office of Utility Consumer Councilor, and just a refresher, that's the consumer advocacy agency that's created by the State to be an advocate for the consumers. So you have the head of that organization, which is 50 plus individuals, experts. You have the chairman for the IURC, Jim Atterholt, who has to review the recommendations from the IURC and agree with those. You have Ed Kaufman, who is the chief technical advisor for the OUCC, and the thing I would point out with him is Mr. Kaufman has been with the OUCC since 1990, so that's 23 years of experience dealing with rate cases. He is a certified rate of return analysis. There are 25 of those in the United States today; the IURC has two of them; Ed is one of those, so pretty strong credentials there. Curt Gassart, who is the director for the IURC wastewater division, performed independent analysis in order to make the recommendation to the commissioners to approve their recommendation, plus we've engaged independent CPA consultants and also we've engaged, through Johnson Controls, independent advisors with PhDs in statistics to look at the statistical analysis aspects of this.

In terms of framing the final scope of this project, it involves, at the core of it, replacing a significant portion of our water meters and automating that. We'll be using a special infrastructure that uses a wireless technology to read the meters, no longer walking around and reading the meters. What that enables us to do is to see, real time, what is happening in our system. Today it's once a month that the meters are read.

Where that comes into play perhaps for many of our consumers is if there is a water leak in their home, they don't have awareness of that until they receive their water bill. I had a recent example where an individual had a separate piece of property; they hadn't been to the house for a few days. The toilet stuck open and their bill jumped from $12.00 to several hundred dollars. With this system, we'll be able to start to get optics around when something is unusual and leaks are occurring.

The Wi-Fi network, which we've mentioned before, is not part of the program. Also, when we look at the network that we are putting in place, keep in mind that the utility is covering about 45 square miles. As we move forward with other initiatives, being able to use that wireless technology to see what is going on in our system will become increasingly important in the years ahead.

In addition, we have other initiatives that are specific to the water and wastewater treatment plants; they involve process automation. A special program called FOG, that's Fats, Oils and Grease, which fundamentally means we are able to collect that from the food establishments, which there are about 1200 in Evansville, including the universities, and process it, *(Inaudible)* to create methane, which creates an alternative fuel source for the utility to offset its energy costs.

In addition this is a potpourri of energy saving projects involving heating and air conditioning system changes, power correction factors, lighting systems, etc., that contribute to this. And as the Mayor alluded to before, we've looked at these projects to make sure they don't interfere with any of our consent to create long-term plan initiatives.

In terms of the final scope, at the core of this are meters. It's meter automation. Meter automation is a very mature technology. Hundreds and hundreds of cities across the United States use that technology today, including…you can see the list there…many local, neighboring communities use that as well. I could provide with a whole litany of others throughout, not only Indiana but throughout the United States as well.

The program savings, as I've mentioned before, are guaranteed by a Fortune 100 company that is 5.4 billion dollars in guarantees. Included with your presentation this evening in the appendix is a list of their credentials and their background, a major corporate citizen. It's been scrutinized by the utility board, we've had review by a major accounting firm. As I already mentioned before, the OUCC has been very diligent in their effort to analysis this case, as well as the IURC.

There are no rate increases involved with this. In addition, we'll have a measurement verification program to validate the savings and that effort can be scaled based on what our needs will be in the future there.

In addition, we have the accountability to report the savings to the Lt. Governor's office, so there is on-going accountability with the program. In terms of where the savings come from, I've

characterized them into four categories. Two of them, the purple part of the pie chart on your left is 1.6 million dollars comes from revenue-related to large meters. The green piece of the pie is from small meters, primarily residential, lost revenue that we are incurring today. The red area is a little shy of a million dollars from operation and maintenance expense reductions, and then the blue is from the energy component.

And if I could, I'd like to kind of address head on a piece of that million dollars that's on operation and maintenance, about half of that is from the elimination of seven meter-reader positions and I know that's a sensitive area but the bargaining unit anticipated that there would be situations where restructuring of jobs would need to occur or jobs would be eliminated and we are sensitive to that. The good thing about this is we have two years to work through the redeployment of those meter-readers into other positions. We will do everything we can to find them appropriate opportunities, either within the utility, and certainly we have attrition and a turnover that presents lots of opportunities there, We will work with them to find new positions, either in the utility or within the City.

So to recap some of the program benefits, we are reducing operation and maintenance cost, it improves safety, it allows us make investments and modernize the infrastructure we have, it will enable us to improve services for repairs and for citizens, and it positions Evansville as a city that is progressive as we implement the automated meter technology that's here.

At this time to talk about some of the other financial components of the program, I'd like to invite Bob Clifford, who is a CPA with Umbaugh & Associates to speak to you.

Bob Clifford: My name is Bob Clifford; I'm a principle with Umbaugh & Associates. I've been with Umbaugh & Associates since 2008. Previous to that, I was the Controller for the City of Indianapolis. Through being an auditor and working at a municipal electric utility, Indiana Municipal Power Agency, I've been associated with municipal finance for about 32 years now, so I just aged myself.

We were brought in at the very beginning to look at this all the way back in August of 2011 and we sat at a meeting over at the wastewater treatment plant where a series of projects were identified that the utility or Mayor Weinzapfel wanted to be accomplished and then we tried to whittle it down to where could afford to do those projects through a guaranteed savings process. And so the original list of projects was much greater than ultimately came about. But the previous administration had a different approach to this than the current administration in that they wanted to spend all their savings on projects and some of the projects had payback period of 25 or 30 years, which don't fit into a guaranteed savings contract.

So as the project was whittled down by the new administration, there is a tremendous number of savings now. As you see up on the board, there is 9.5 million dollars in savings after paying for debt service. This does not include any potential savings that are in what they call the contingency funds. As the City renegotiated the contract, instead of shrinking the size of the contract even more, they put more money into contingencies to make sure they could complete all the projects on a timely basis.

This is a 22-year project. It's two years of construction; 20 years of a period of savings that will be achieved. The IURC addressed this because Mr. Garrett addressed this in one of his complaints. It is legal for it to be 22 years, two years of capitalized interest, 20 years of savings.

The City Council is required to approve this because part of the financing would be done by the sewer utility. The IURC has approved the water issuing that to pay for this. We have looked at other financing sources. Certificates of Participation are bonds that are issued to banks that typically carry a higher cost of interest. They are usually subordinated debt, which means that they are below the current revenue bonds that are outstanding in the utility so they will cost more. The most cost effective method would be to issue revenue bonds and I don't know if you all are aware of this but the Evansville Water & Sewer Utility was recently in the market and sold one of their bonds for...it's a 10-year maturity in that case...for 1.65% was the net interest cost.

I work with Muncie, where I'll be tomorrow, to report to their Utility Board. They sold a 20-year bond this week for 2.89%. All of our savings estimates in this contract are estimated at 3.9% interest cost. So what you'll see is probably even greater savings if you can approve this project and keep it moving forward quickly.

This is a graph that shows the savings and the debt service that we will have on this. One thing that should be noted here is that those savings don't include any contingencies that might go toward reducing the bond size or paying for parts of the project or just being returned to savings.

With this I'll turn it over to Greg.

Greg Wathen: Madam President, members of the Common Council, good evening. For the record my name is Greg Wathen and I'm President and CEO of the Economic Development Coalition of Southwest Indiana so thank you for allowing me to be here.

As I was thinking through, in terms of the presentation of, you know, how I would present it. In terms of...you see the information. It is there in terms of we can talk about the economic development side but I was thinking of maybe a more practical approach.

Think about just in your everyday business and what you do just at home. How much information do you send out over the internet? Now think in terms of the City. How much data, information is required just to run a city of this size, from public safety issues to just the various departments that are here. You have a unique opportunity. In order to fund a core piece of this, which is the fiber backbone of the data highway, and fund it though a mechanism that doesn't raise property taxes.

Do you think in terms of just your use of information and the City's use of information, will it go down, will that volume of need of information...will it go down? Probably not. It's going to increase and in particular when we get into the world of live-streaming video, you have to have a pipe that's going to be able to handle it and just this very opportunity here is one that many communities just will not be accustomed to simply because they just can't afford it. But because of the unique way of this financing through a performance-based contract, you have the ability to do so.

If you look at the national broadband map when it comes to fiber, the Evansville Metro is about 9.8% of the population. The national average is closer to 25% so we are kind of behind the eight ball in terms of that requirement. As you're looking at large data users, whether they are universities, educational institutions, medical centers or medical facilities, they have just an

enormous appetite to move lots and lots of data and that's not going away. With the Affordable Care Act, you're going to be able to see the movement of just health information become so required that having this kind of capability will certainly aid those institutions that are located here.

And another great thing about this is that, you know, the chapter on how we can utilize this for economic development is still yet to be written so having the core backbone in place allows us to work with partners and our telecommunications partners such as AT&T to really rewrite how Evansville's telecommunications' history is going to look. So for that reason alone, we think this is very strong proposal. It's one that allows you to build this infrastructure without raising property taxes. There is no guarantee that's required on the backs of the ratepayers. It's all based...really...unfortunately, it's all on the back of Johnsons Controls and it's that kind of unique partnership that we think we'd love to see more of these kinds of things and these opportunities to arise within our region.

Thank you very much.

Wendell Hibdon: I want to thank Madam President and the distinguished Council for allowing me the opportunity to speak tonight. My name is Wendell Hibdon. I'm the business manager for the Plumbers and Pipefitters, Southern Indiana, Local 136. I represent 1300 members throughout southwest Indiana. The vast majority live right here in the Evansville area.

Tonight I'm representing the Indiana State...Southwest Indiana State Building Construction Trades Council, representing several thousand more highly skilled members. Up here you'll see we have eight local unions listed there. There are a total of 14 in Southwest Indiana State Building Construction Trades unions and we've had the privilege of working on several of these projects in the past. We brought them in on time and under budget. That's something we are very proud of. And we've had the opportunity to work with PPMI, one of our local contractors who excel in projects like this.

I just wanted to come up here tonight and let you guys know, the entire Council, Madam President, that we stand in full support of this project and we hope that you can move forward with it. Thank you.

Allen Mounts: The conclusion. Just to recap a few things. This has been a bit of a journey. It's stretched over three years and gone through several hoops of reviews and approvals. We believe that the ratepayers are going to get fair and accurate billing through this system. We are going to be able to improve customer service, improve safety, and generate savings for the utility that can be used to service the debt that's here. It helps a lot of local companies; it creates jobs.

The network infrastructure that we've been talking about is probably the newest piece of this when we start talking about fiber optics. As we look at those opportunities, you know, I kind of reflect back and say as we looked at how will *(Inaudible)* this solution, we have made appropriate changes to make this a better deal for the utility and thus for the City.

As we head down this journey on the technology side of that, you know, we still have a little bit of time on our hands to look at what some options are there. I've had sidebar discussions with some other organizations but at this point the path we've been down is when you look at whether you outsource or whether you insource it, we've built the program based on insourcing it.

As we are here before you this evening, we are certainly receptive and want to listen to responses from the Council, questions from the Council...listen to those questions as well as those from the public here.

We think this is a win-win for everyone and we will ask the Council, at a future date, to approve financing for this, or a portion of this project, which is going to be 36 million dollars, at a future meeting.

So at this point, Madam President, I would open it up to the Council for questions.

President Robinson: Okay, thank you. Are there any Councilmembers with questions?

Conor O'Daniel: Let me just start. Allen, the IURC rejected the proposal back in August of last year, and that included the Wi-Fi. What's different between the Wi-Fi that was talked about then and the Wi-Fi that you are talking about now?

Allen Mounts: The Wi-Fi that was in place then had two components to it. It had a public Wi-Fi access so it was called an Open-Air Wi-Fi. It's not strong enough to penetrate basically through buildings but if you were in the Main Street area maybe, perhaps a park if you were close by you could get some low-level internet connectivity. The other piece of it was the Public Safety Wi-Fi piece of that and the concept behind that was fire and police and who currently use other mobile technologies to *(Inaudible)* could use the Wi-Fi. The IURC said we don't think those components of it are appropriate to fund because they are not specific to the utility. Also with the public safety component to it, topography varies my cities so you are not guaranteed 100% coverage so you could have some black spots, if you will, where the coverage would drop so for public safety purposes, that was a bit of a concern so we pulled that out. Everything that is in the project today is utilities specifically.

Conor O'Daniel: And I guess this sort of addresses Mr. Wathen's concern, or at least statement, that how does this particularly help generate any sort of spin-off or how does the medical center use it if we are fortunate enough to get them or, you know, how do you get the economic development bent to that when it's solely...the sole function is for water.

Allen Mounts: I understand. The...what we are recommending to you today is based on benefit to the utility, however, if you build out that solution, that infrastructure, the fiber optic ring that you put around the City is an investment, and it's an investment that has capacity to it. It's also an investment that could be scalable. Should the City at a future point wish to leverage that asset then yet to be defined we could rent, lease that space to the City but it's not well defined. The infrastructure is in place in order to deliver those services.

Conor O'Daniel: So that would be owned by the utility then?

Allen Mounts: At this point it is owned by the utility, yes.

Conor O'Daniel: Then what would be the upgradable capacity of what is being proposed to that of what could be sold or even offered to the public.

Allen Mounts: I don't have the answer to that. It is scalable to a pretty good size pipe in terms…it's really the software side of it but I don't know what that could be. It would be more than enough, from those that I've spoken with, to meet not only *(Inaudible)* to the City but if you had to transmit medical documents, etc., it would be a big enough pipe, if you will, to transmit those document.

Councilman Friend: Allen, can I ask a question?

Allen Mounts: Yes John?

Councilman Friend: As it relates to that fiber optic, we would have…I know we're going over 20 years with this but normally when you get into these types of substances, usually I've found out through my experiences just in what I do for a living, that you might run into some tech obsolescence. Usually when you go by seven to ten years out, you run into that. And the other thing I was wondering about, cause I asked you about the towers, we have nine towers in this deal. If you recall we had that canopy system, okay, that we use and we had issues with that one. You know we only had five of them working on those points. The question I was wondering is why don't we…have we considered cell technology to use in those areas instead of the nine towers and what are those…the cost of those towers.

Allen Mounts: I know they did consider cell technology or microwave technology, I'll put it that way, as opposed to cellular devises and I don't recall the details of it John but the wireless component of it was from industry use, a more effective means of trans…more reliable means of transmitting the data. The collection towers are primarily strategically located at key collection points and it's just a more favored technology, as I've talked to my people who know about that.

Councilman Friend: Would you know like since with the Wi…with the microwave technology, I mean that's been around 50, 60 years and that has a tendency, as I recall cause I was in the telephone industry for a number of years, that you end up with…you have site, you've got to go by sight and that can present some issues. Have they looked into that?

Allen Mounts: I know they have looked at it John. If you are looking for a technical response then I would have to defer to somebody else from our team to respond to that.

Barry Torphy: Good evening Madam President, Council. I'm Barry Torphy, a project executive with Johnson Controls and hopefully I can help answer some of your more technical questions, help out on that a little bit.

Councilman Friend: Okay, well like I said is with the…cause I was thinking about…cause I've been, I had some tech people talk to me about it looking into the cell technology versus the technology as it relates to microwave. The thing that I guess my concern would be at this moment, I think this is a 6.5 million dollar aspect of this deal, I believe, if I recall. Is that true?

Barry Torphy: There are various different components so is your question around the wireless meter reading aspect of it or which specifically so I can target to try to help you…

Councilman Friend: What I am saying is I looked at it. In a 10-year period of time we would spend 2.4 million dollars with AT&T. AT&T would maintain the system, okay. Now hear me out. They would maintain the system. The question comes down is would we…they kept the

towers up, can't do that. So that's the element in the formula that I'm trying to get my hands around. I'm wondering if you got an outfit already with the system in play and you're going to have a 2.4 million versus a 6.5 million dollar outlay, you're going to have to have those towers somewhere around $250,000 per tower to get that 10-year mark.

Barry Torphy: Well *(Inaudible)* a little bit. We are talking about 60,000 water meters if I'm not mistaken, around about, so if we decided to do that by way of a cellular solution, and let's say we were able to do that at a very low cost, a commercial off the shelf unit of about $50 per household. So you've got $50 x 60,000 to run that on a cellular network. Typically the monthly charges through a carrier, be it AT&T, Verizon, whomever, on a cellular network is approximately $20.00 a month. So if you quickly extrapolate that versus the cost...and I'm not the financial person so I'm not the one to do that that would give you your cost if we went to a cellular solution for automatic meter reading versus the proposed solution that we are discussing tonight.

Councilman Friend: I think I might have confused the situation. I'm talking about...we still use a fiber optic solution, okay; we just use the railroad that's in place now.

Barry Torphy: Correct.

Councilman Friend: Okay. What I'm talking about is when you get those outlying areas when you have to use the towers, okay, those would be implemented with maybe cell technology. It's my question. I'm trying to figure out that.

Barry Torphy: Let me just give you a very quick...without too deep if I can.

Councilman Friend: Yeah.

Barry Torphy: The towers, the nine towers that they were speaking of, those are collector sites that are collecting data from the users, from the utility users. So those nine sites are collecting data from the 60,000 meters with the district's operation. That information is then backhauled into the City network.

Councilman Friend: Okay, so I mean...

Barry Torphy: By way of fiber optics, there are, I'd have to go back to my notes, two or three locations that the fiber today under the current design does not touch, those will be brought back by way of radio connection...

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Microwave has been considered. That is a viable option. We are looking at a few others but we are talking perhaps two sites that will be coming back on radio versus physically *(Inaudible)* fiber.

Councilman Friend: What's the estimated cost to maintain this system?

Barry Torphy: I don't have that. I apologize. I didn't come prepared; I didn't realize I would be asked that question. *(Inaudible)* but we can certainly...

Councilman Friend: Well I mean it had to be *(Inaudible)*

Barry Torphy: Is there a specific component you are referring to?

Councilman Friend: No I'm just saying the overall maintaining this system that we are going to put in.

Barry Torphy: Yeah, there is a multitude of systems so…

Councilman Friend: What I'm talking about, the fiber optics we are going to put in, cause basically now we…options…we could use AT&T systems.

Barry Torphy: Correct.

Councilman Friend: Okay, the cost is 2.4 million dollars for ten year period of time.

Barry Torphy: Okay.

Councilman Friend: *(Inaudible)* there. The only question is we have those outliers that we gotta kind of work with, the tower systems that connect in, that's something that AT&T doesn't have. That's the magic number I need to find out is which way do you look at it? Do you look at a 10-year deal? You already got somebody that's maintaining the system for you; you don't have to worry about it. You've got the fiber optic out there, okay, and then you work off that and you said we save probably quite a bit of money, maybe two or three million dollars.

Barry Torphy: Understand that there is a tremendous difference between a utility owned fiber optic network…

Councilman Friend: Yes.

Barry Torphy:…and AT&T network. It is a perfect analogy if you take your car to Indianapolis and run on the speedway, you're on a closed track as opposed to the interstate to get there. AT&T is the interstate. The utility owned fiber network is that closed track. Also, the Adds, Moves and Changes costs over the years, the savings for the lease, the City owns the asset, the potential was brought up by the Economic Development Commission of that. There are many benefits above and beyond that AT&T cannot offer to the utility *(Inaudible).*

Councilman Friend: Well one thing I got concerned about is all throughout the mid-west there only about one place, that's Chattanooga, Tennessee that you *(Inaudible)* really brag about how well that's been working there. Is that true?

Barry Torphy: I would disagree. I have several case studies of cities that are doing this. I was just on the phone on the way down here tonight with some folks up in Champagne, Illinois that are deploying the fiber to their own program so there are literally hundreds of municipalities in the country, if not more, that are incorporating their own fiber and certainly expanding that to things, business and home, fiber *(Inaudible),* beyond just the course they use.

Councilman Friend: Well thanks for your information, thanks a lot.

Allen Mounts: John if I *(Inaudible)* apologize. I want to let you know fairly recently I did have a meeting with AT&T so I had kind of access to the information you're talking about. I did tell them that I'd take a look at that and see how it compares to the...sort of the build our own solution set that we have in place and I haven't had the opportunity to walk through all that but some of the questions you are raising about this is part of that analysis.

Councilman Friend: I appreciate that. When you get there, let me know.

Allen Mounts: Okay.

Councilman Friend: Okay, thank you.

Councilman O'Daniel: One of the other changes between the initial proposal and one that was ultimately approved in March was the number of meters that would be replaced.

Allen Mounts: It was.

Councilman O'Daniel: There were some...what, 14 or 16 thousand that were...

Allen Mounts: Yeah, it's about 15, 16 thousand meters that were basically small. Most of them were small meters that were five years of less of age.

Councilman O'Daniel: How did those get read?

Allen Mounts: They are read the same way the other meters are read today. How will they be read in the future? There'll be...

Councilman O'Daniel: You'll still have to have a manual person going out there.

Allen Mounts: No, no. They'll be equipped with a transmitter; it will be affixed to those meters.

Councilman O'Daniel: Okay, is that built into the cost of this.

Allen Mounts: It is, ah huh.

Councilman O'Daniel: It's just not replacing the entire meter.

Allen Mounts: No, it's not replacing the entire meter.

Councilman O'Daniel: One of the things, I was looking through the contract, you also called for, I guess, plug-in ready. It's probably not the right word for it but when the installation of these meters, the newer meters, would be put into where the old meters are, that essentially Johnson Controls would not be responsible for putting all the other components, if they are worn out or otherwise, they just put their machine, their transmitter or wireless service in, everything else in on Utility to make sure that it is compatible and ready to go. Correct?

Allen Mounts: Yeah.

Councilman O'Daniel: Do we have a cost estimate of what that will be because that's not part of this estimate.

Allen Mounts: It...we have a contingency which is a placeholder to cover some of those costs.

Councilman O'Daniel: That's three million dollars?

Allen Mounts: It's about 3.5 million dollars at this point in contingency funds. Certainly as you get out, we expect it to be some meter pits that need to be repaired.

Councilman O'Daniel: But isn't that contingency fund, isn't that built into the 14% savings?

Allen Mounts: The contingency...no I don't think...so I'm looking to Bob here.

Councilman O'Daniel: So it's not considered...

Allen Mounts: It's not considered a savings because it's considered to be an expense. We're at...so the 9.5 million dollars is over and above the contingency to the extent that we do not use that full contingency; we told the IURC that we'd apply it toward the debt service reserve.

Councilman O'Daniel: Reserve.

Allen Mounts: Ah huh. So obviously with any project of this scale we anticipated that there could be things that are unknown to us at this point or things that are known that will happen and we just don't know how to scale it because you won't know until you get into the deal so we did, we were very intentional about it increasing the contingency fund of a million dollars to 3.5 million dollars.

Councilman O'Daniel: Why was there a need to increase it three and a half fold over the initial proposal.

Allen Mounts: You know, I've learned and I'm...after a year in the business here as we've done other construction projects, it's common to try to shoot for close to a 10% contingency amount where there will be large-scale construction projects so it was consistent with the methodology that's used in other contracts and consistent with what others use as well so three and a half million dollars seemed...kind of getting us in the ballpark cause we went from...we reduced the overall size by eight, over eight million dollars which got us on direct construction costs of about 35 million dollars so 3.5 is about 10% of the *(Inaudible)* construction.

Councilman O'Daniel: Of course the *(Inaudible)* million dollars was largely the fiber optic *(Inaudible)* and then *(Inaudible)*...

Allen Mounts: It's the meters, ah huh and then there was a separate wastewater project that was seven hundred some-odd thousand dollars that we pulled out so...

President Robinson: Councilman McGinn.

Councilman McGinn: Hi Allen. A couple of questions...actually I have several questions. The first one on this is on your pie chart you're showing from small meter and large meter lost revenue of about two and a half million dollars a year. Does that include what has been called "the lost water through leaks"? Has a value been placed on that?

Allen Mounts: I'm sorry Dan, just a second.

Councilman McGinn: Well you...I just thought that would be a good point of reference, your pie chart.

Allen Mounts: Yeah so the pie chart, we have 1.8 million dollars in lost revenue. That's the 1.6 and the 1. ...you know one hundred and fifty thousand kind of gets you close to 1.8 million.

Councilman McGinn: In that...figured in that is what is referred to in contracts as the lost water?

Allen Mounts: Lost water. Well, I can't speak...I don't recall specifically the terminology but it's water that could be billable.

Councilman McGinn: Okay but who buys that lost water if you stop the leak?

Allen Mounts: These...primarily with the large meters, and that customer base there, is the one...it's not buying lost water, it's revenue that we are not receiving because the receiving water, as you measure the accuracy of the meter...

Councilman McGinn: No, I'm talking about separate and distinct from the water, I mean part of these are sensors to find out whether you've got a leak in the water line...

Allen Mounts: Oh, leak detection? I'm going to need...

Councilman McGinn: And that was what, $469,000 I think? I mean who buys this lost water that you are counting as a savings for us?

Bob Clifford: There is not a purchase of it; you don't produce as much water so you have the savings of producing the water, or pumping it.

Councilman McGinn: Well, I mean we are talking chemicals, basically. We save on chemicals.

Bob Clifford: Chemicals and power and manpower, but once you have a small leak too, they often create bigger leaks as time goes on and then you have to replace the pipe itself. You have a bigger catastrophe and greater cost.

Councilman McGinn: Okay. Now some of these things too though, I notice you show the water, the large meters, that's the substantial amount of revenue we hope to get, large meters. Now were any large meters tested or were they stipulated to be inaccurate?

Allen Mounts: There were 38 large meters that were tested...they were testable, meaning you could pull them and test them. There were a group of other large meters that were not testable

because you couldn't pull the meter to test them and so in working with, between our staff, and I wasn't here at the time, but our experts and Johnson Controls made a reasonable guess as to what that accuracy should be for those meters.

Councilman McGinn: I saw a list. It looked like 88% accurate was the number that was the number that was…

Allen Mounts: That sounds about right.

Councilman McGinn: And that was agreed and stipulated between the City and Johnson Controls. Now my question is what if those meters are…say they are already 95% accurate and we don't recover that, we are locked into the 88% are we not as of the stipulation?

Allen Mounts: We are for that specific project. The guarantee, however, is for the overall project…

Councilman McGinn: Right.

Allen Mounts:…so you'll have some pluses and minuses with that. You know, we'll have the opportunity also to test those meters once we pull them because we can't pull them today but we will be able to have the kind of opportunity to look and validate…was that a reasonable assumption…so…

Councilman McGinn: Well, those have to be pulled. I mean is there a possibility of testing those meters to find out if that 88% is accurate by something as simple as pulling a 3000-gallon tanker truck in there, filling it up on low, medium and high volume and reading the meter.

Allen Mounts: I'll defer…

Mike Pope: And it's easy, I think it's easy for me. Good evening. My name is Mike Pope and I'm the area general manager for Johnson Controls.

Councilman McGinn: Okay.

Mike Pope: You've got a subset of meters and basically we went out and we tested everything we could test within that large meter category.

Councilman McGinn: How many large meters are there, approximately?

Mike Pope: I'd have to go back and look at the contract…450.

Councilman McGinn: 450. How many have you *(Inaudible)*?

Mike Pope: Pardon?

Councilman McGinn: How did you test?

Mike Pope: We tested all of them other than that subset group of 50 that we looked at 88.5%. And then what we did is we went back…

Councilman McGinn: Wait…you tested all…you said all of them?

President Robinson: You said 38 didn't. Didn't they say 38…

Mike Pope: Except that subset of…

Unidentified Speaker: You tested 412?

Mike Pope: 412…yes.

Councilman McGinn: You did test 412 large meters?

Mike Pope: Yeah. I think somebody made mention of M.E. Simpson and that's a service they provided so that data comes back from M.E. Simpson. We generally recommend a third party. That way it's not Johnson Controls going out and test meters so you have a third party, independent verification of that. But in that subset that you were talking about, what we do is we look at the age, the availability of testing so the test *(Inaudible)* and all the things, they're not testable. They haven't been tested. We went back as far as we could. M.E. Simpson has worked for you for a long, long time, and they were not able to test those in the last five to ten years.

Councilman McGinn: Okay.

Mike Pope: So then we go back and we look at what are the revenue numbers on it. We have a software package we use where we take all that…all your billing data and we can look at these individual meter sets and we make some analysis of those meter sets. In the contract, we put those meter sets in kind of that unmeasured status. Once we go to construction, now we can actually pull that meter. I can't pull a meter out of service right now without replacing it.

Councilman McGinn: I understand that.

Mike Pope: So once I go to construction, I can actually pull that meter out, replace that meter and now I can test it and then we'll have that tested…that whole subset of large meters tested and now it will go into the measured category and actually be guaranteed under the program.

Councilman McGinn: Okay.

Mike Pope: It's just right now it doesn't…the cost involved to pull those large meters would be very large. It didn't make sense so we are very conservative in that approach. We anticipate that we will actually get more savings out of those. Again, some will test a little bit higher, some will test a lot lower but as an aggregate, we are very comfortable with that.

But again, we'll move from that unmeasured status that you look at and I think that's the term we use in the contract too…kind of that measured status so that there is a guarantee but the only way to do that is under construction.

Councilman McGinn: Okay. Also…stay up there. You may be the person who could answer this for me and Allen knows I'm very unclear on this. The contract in Schedule 2A says that:

"Meter accuracy benefits, measured project benefits, and future benefits are based on annual water escalation rates of 2.8% starting in year-two, and an annual sewer escalation rate of 2.8%..." Now then on the sewer side, they are talking about something based on an initial 11% increase in sewers and starting in year-three, another 2.8% per year for an additional 17 years. How does that tie in with the fact that there are big letters up there that say you do not...or we are not going to increase water rates. I mean explain to me...

Mike Pope: What we factored in, and maybe Bob could answer this a little bit better cause I'm not familiar with the current rate structure you are going to go to with the consent decree. What we did is we used a conservative number...

Councilman McGinn: Well let's just assume we are not going to raise rates 2.8% a year, we are just not going to do it.

Mike Pope: Right.

Councilman McGinn: That slide said we are not going to raise rates, okay, we are not going to raise them.

Mike Pope: Right. As part of this program we're...you're not anticipating the rate increase but to go over the next 20 years with any increases in utility rates, electric, gas...any increases in other water or sewer rates, I don't see that as a possibility so we factored in a very conservative number. In fact I was the one who gave testimony on that at the IURC and I probably spent about an hour and a half with Ed Kaufman and the difference between what the IURC and we came up with was like 1/10 of 1%. So we all agree that 2.8% was a reasonable number in the program. Now again, we're not anticipating any rate increases to pay for the program. It's the analysis where you have potential, again, utility rate increase...

Councilman McGinn: I'm lost Mike, I'm lost. Let me ask you this way. Are you basing what you are going to show as the profit that we make on an anticipated increase in revenue of 2.8% *(Inaudible)*

Mike Pope: *(Inaudible)* the calculation is based on an annual increase of 2.8%.

Councilman McGinn: Whether it happens or not. What I'm saying is...

Mike Pope: Yes, it's nothing...yes.

Councilman McGinn: Let me put it this way. I'll give you numbers. Right now we bill out water and sewer, 65 million dollars a year, we collect that. A 2.8% increase next year will bring that up to 66.82 million. Now are you saying...and let's say the meters are already in. Do you count that we have an additional 1.82 million dollars to show the profitability of this program. You count that profit as being made?

Mike Pope: State that again. I'm not sure I follow you.

Councilman McGinn: Okay. We have...

Mike Pope: We are using a 2.8% calculation in...

Councilman McGinn: But I mean why are you using it? We're going to save money by getting paid for unbilled water that's going to pay for this program. Why do we need to show a rate...I mean, that's where I am really confused. Why do we need to show an increase? I mean, don't we just check our yearly billings and say, "Okay, we made in water and sewer an additional 3.18 million dollars a year. That's enough to make the payment"? Isn't that what we just...isn't that how we do this. Isn't that what a guaranteed contract is?

Allen Mounts: I think it's reasonable, it's reasonable to...and it was embedded in the contract to assume there would be some annual increases the benefit to utility, either in the expense reductions through inflation or through future price increases. The 2.8% I would characterize as a conservative estimate for the following reasons and let me just give you some examples. Let's take the sewer portion of it, and this is public information but when we filed the draft of the Integrated Overflow Control Plan, we had to do financial capabilities analysis in that in that it's forecasting, just on what was submitted last July, that the compounded increases that would occur over the 20-year period would be 135%. So just set the guarantee aside in terms of lost revenue. If we don't do this then we are losing an opportunity. The compounded rate of 2.8% is 74%, which means that the probability as a result of future rate increases will be even higher that what was estimated for the savings of it. That means there are even going to be greater benefits for us making the changes. Our cost is for the installation of all the projects we are talking about. The future savings don't go to Johnson Controls they go to the Utility here so we benefit from that.

Councilman McGinn: Well I mean if we raise our combined water and sewer billings 2.8% a year for 17 years, I mean you're talking in 325 billion dollars additional revenue coming into the City. Does Johnson Control, under this contract, get to say their meters gave us that kind of money?

Allen Mounts: Dan, I appreciate your point there but let me give you this schedule that shows the compounded rate at 1.028%. It shows, after 20 years of compounding and effective rate of 74%.

Councilman McGinn: Oh I know it's 74%. That would mean if someone's billing would be $103...

Allen Mounts: But my point is that...

Councilman McGinn: But we get 65 million dollars plus 2.8% next year then we get it the year after...that amount...

Allen Mounts: Yeah the 2.8% is independent of whatever we decide to do with the rate increases going forward. The 2.8% was an estimate of what you think the future benefits are going to be. My point is that it's going to be hard to see that because the probability of rate increases being greater than 2.8%, I contend, is higher than the 2.8% simply because of what we are faced with in terms of infrastructure on the consent decree and what's coming at us there, and then as you all know there are a lot of challenges on the water side as well. The most recent case was 35.6%.

Councilman McGinn: Yeah. Well Allen, I'm trying to figure out what they guarantee. I mean Page 2A, Section...Schedule 2A, Page 13 says, "JCI is assured performance guarantee is based

upon certain assumptions and blah, blah, blah..." It says, "Guarantees shall not include the following items". The very first one says, "Water system revenue". I mean, what...how are you guaranteeing we are going to make enough money on this to pay the bills?

Mike Pope: Which is a little bit different *(Inaudible)*. So you go back to the baseline year and that's standard in any contract. If you go back and look at any of the contracts that you've previously gone with...energy savings performance contracts, there is a base year. In that base year you've *(Inaudible)*...

Councilman McGinn: Let's call our base year 65 million dollars. That's what we are going to make this year, 2013, we're going to gross...

Mike Pope: *(Inaudible)* then again, I'm looking at our base year being 3.1 million dollars. I don't know if you can hear me, I apologize. And that is what we are guaranteeing in the contract so that guarantee goes up and it's based on...let me back up because it's a little more complicated than certainly a five-minute conversation. We go back and we look at all the efficiencies and we come up with, you know, a number that is reasonable and we establish as a baseline here. So we take data from, I believe, 2009, 2010, and 2011 and establish that, you know, based on that baseline year, you know, there is where it should be. Then we look at it and say, "Okay based on that, this is what the inefficiency relates to in terms of dollars". So that's where we come up...so Point 1 is that's where we come up with the 3.1 million dollars in first-year savings. The guarantee goes back and says, "Okay, what can I really guarantee? I can't guarantee that Evansville Water & Sewer Utility will be in business in ten years". So let's say everybody moved out of Evansville. If I guaranteed revenue and everybody moved out of Evansville, would my guarantee come in to play? Would I still have to pay you 3.1 million dollars plus some escalation?

Councilman McGinn: I agree. That would be silly.

Mike Pope: That would be silly. So what we say is based on the...and let's just take the meters cause that happens to be the biggest portion of it. So let's take a look at that meter population, let's take a look at the little subset meter population of 88.5%.

Councilman McGinn: Okay.

Mike Pope: So I'm saying that based on that delta between 88.5% and a new meter accuracy between that based on that current loss, that should be X amount of dollars per year. If, in let's say...I've gone through construction, I've replaced all the meters, I've upgraded, I've done everything I said I was going to do, that in year-three I go back and I test that meter and it's not testing at what we have in the contract and that's what I guaranteed. Then I apply my base rate, my base assumptions to that and that's how I come up with a dollar value of either a short fall or whatever I'm coming out with cause that's what we are guaranteeing. The guarantee is based on the meter accuracy, old meter versus new meter, and then we apply the base year to that and that's what we are guaranteeing. So when we said we don't guarantee revenue we are saying we are not guaranteeing future revenue because again, if all those...if every customer left and you didn't have any customers to sell water to, I'm not going to pay you 3.1 million dollars. But what I'm going to say is, when I go test that meter, and if my accuracy is different from what I guaranteed in the contract, the number is based on the base year so I go back and there is a real dollar value...

Councilman McGinn: You'll increase that by 2.8% per year.

Mike Pope:...which is by 2.8% a year.

Councilman McGinn: Is testing though...we have to pay you to test these meters about $200,000 a year, is that right? In addition to what's listed after...

Mike Pope: What was part of the original contract with the first administration and of course the second administration, we did a very robust measurement verification workshop.

Councilman McGinn: Is that...million dollars, is that included in what you are calling the 9.2 profit type thing or is that in addition like this *(Inaudible)*.

Mike Pope: No that's nothing...Bob, I believe that's all in.

Bob Clifford: Yeah, that's all in.

Councilman McGinn: That's in. Okay. And that's...the contract says that's good for five years. We have to renegotiate that testing after five years?

Mike Pope: Well I think what we came up with is we gave the Utility options. Here's what we offer, and we love to do it for 20 years cause we get paid to do that.

Councilman McGinn: Two-hundred grand a year plus...

Mike Pope: Sure, great *(Inaudible)*. But we said, "What's the best use of funds for the Utility?" And I think that's the decision that was at some point can we do the testing internally or does it make sense to go hire a third party to do it but that gives you that flexibility to make that decision down the road...or do we do it every...on the fifth year, or the tenth year, or the 15th year, or the 20th year to maintain that guarantee. That's the decision I think the utility makes, not Johnson Controls.

That first five years is critical cause we want to prove that we are making a savings and if we are not, I don't want to have to come back in year 10 and say, "Oops, I owe you for 10 years-worth of shortfalls", so it behooves us to test but it also behooves you to test as well during that first five years and test very aggressively so that you can guarantee...you're guaranteed that we're meeting our guarantee. After that five years, if we've tested, and you know there are some things that make sense that we don't continue to test, but certainly the large meter I think is very critical that there is an ongoing test program. The issue is do I continue to do it or have I...because there is training involved as part of this program so we are going to train cause there is a software package and when we start talking about all this data, there is a lot of uses for that data but we will provide training for that data. So now when you have your fingertips on that data, you'll be able to manage that system better and it's a matter of, you know, who wants...who is going to do that testing.

Councilman McGinn: Okay.

Mike Pope: Ultimately there is a report that has to go to the Lt. Governor's office for the full 20 years, cause we have to report out, but now becomes, "is Johnson Controls going to be testing it,

do I hire a third party or do I have the people now that understand that system and can actually go out and test it?"

Councilman McGinn: The cost for testing then, that is not included then after year five?

Mike Pope: That is correct.

Councilman McGinn: Okay, and then…

Mike Pope: And it won't be as robust because during that first five years it's really…there is a lot of training and it's not just testing. There is training and other services involved in that. In later years it'll be minimal because we are not going to pull every…we are not going to test every large meter. We are going to test…we are going to look at your top 20, top 30 and we are going to able to be more efficient in the testing in years three, four, and five.

Councilman McGinn: Okay. Is an employee going to be needed to monitor this system regard…you know, different outside of the testing? I mean just a…who takes care of this system if we get rid of our meter readers? I mean is that…

Mike Pope: Well there are only seven positions going so you've got more than that so there are going to be a couple probably…

Allen Mounts: There are 10…I may need some help on this…there are 10 meter reader positions.

Councilman McGinn: Ten.

Allen Mounts: And then the remaining three would be retrained from an operators…I mean from an operational perspective to support the system.

Councilman McGinn: Okay so you just need three to run the system.

(Inaudible)

Mike Pope: You need one or two and that is if I get, let's say…let's say I have Mr. McGinn's meter on my sheet and also I get a red flag that says, "Oops. There is something wrong with Mr. McGinn's meter". I need somebody to go out and check that meter so there are, you know, maybe the meter failed or something happened, that what…it'll be more of a trouble-shooting position. And then your billing people will be trained cause you will be able to tie into your current billing system and they'll be trained with customer service and again, it provides so much data at your fingertips, it's a matter of what do you want to do with that data. We'll help you kind of define what that looks like.

Councilman McGinn: I think that answered that part of the question. The seven, that's a net…

Bob Clifford: Can I make a comment about the measurement verification.

Councilman McGinn: I'm sorry. About the what?

Bob Clifford: Measurement verification.

Councilman McGinn: Please do.

Bob Clifford: If you were to look at the State statute, you probably would count measurement and verification as part of the savings or against the savings, in *(Inaudible)* the savings, because measurement and verification is something you should be doing already. Why your meters are not operating effectively is because no one is going in and testing them. You don't have a regular testing program; you are not in there doing that, so if you look at measurement and verification, I would submit that that's an ongoing expense of the Utility every year and it should be, and it shouldn't be something outside or part of this contract as a special expense.

Stephanie Brinkerhoff-Riley: Then why does the contract provide that *(Inaudible)* residential meters, 1" meters and 2" meters are only actually tested in year five of the contract?

Bob Clifford: There are a couple of reasons for that. First of all if a...currently if meter stops working or starts to slow down, because that's how they operate, the meter readers go in and he's picking up the reading, he's writing on a card or he's putting it in his machine and taking it back and it's downloaded. There is no software to analyze the usage. If you used 5000 gallons last month and this year you used 1000 gallons, there should be a red flag thrown up. But those meters are now good for 20 years, the Sensus meters. They're guaranteed 100% for 10 years and so the point of testing them in year five is to see if they are registering at 99.5% accurate so that makes sense. You don't want to go out and test 60,000 meters but if you go out and test 100 and you find that 10 are bad then you probably ought to go into it further because you have 10% failure.

Councilwoman Brinkerhoff-Riley: But how can you possi...so what I understand to be the case then is that when you're, when JCI, within 60 days of the end of the cycle when it calculates and reviews whether it's met its guarantee, when you're talking about these residential 1" and 2" meters, then you're basically what...my understanding of the process is you go to the cust...you've got the customers records, you've got a baseline customer usage and then you just take that amount x the increase efficiency that you've agreed will be there in the first four years in the chart that's in Schedule 2A, which is Page, Schedule 2A, Page 28. Those that's actually, when you talk about those three sizes of water meters, that's actually how you're calculating whether you're meeting you're guarantee in that first four years, right?

Bob Clifford: I'm not sure I followed you on that.

Unidentified Speaker/Off Microphone: Can you restate the question. You're asking about the 5/8", the 2" and the large meter?

Bob Clifford: No the 1".

Unidentified Speaker: Oh, the 1".

Councilwoman Brinkerhoff-Riley: The residential, which is .625 x .75, the 1" and the 2" are only tested in year five but your contract provides that every year you will review whether the performance is there in terms of the guarantee. And one of the things that you have is you've got a chart on Schedule 2A, Page 28 which tells us the accuracy of these three sizes of meters;

what's to be expected over the next 20 years because they don't stay at 99.5% accuracy, I mean that reduces. And so when you're calculating your performance, since you're not testing these meters until year five, the last year, really, of the testing, when you do you're analysis in the first four years, are you just taking the customers baseline usage *(Inaudible)* the inefficient meter, or the meter that we believe is averaging 98.6, and then you're just taking it x what we...what the parties have agreed to will be the increased efficiency that's in that chart.

Bob Clifford: Right.

Councilwoman Brinkerhoff-Riley: Okay.

Mike Pope: And let me explain it because it's actually a very good question and I think it's a valid point. When we looked at, and I'll go back to your point...we'd love to charge you, you know, $200,000 a year forever and ever and ever but we want to be efficient with your dollars. So where do we get the most efficiency from a testing standpoint? If you go back to Allen's pie Chart and look at the revenue from the meters, it happens to be in all the, really, the 3" and above meters so that's where we want to spend our dollars and be very rigorous in the testing. The small meter is only...represents 147 some thousand dollars a year out of the 3.1 million so it's a very small piece of it. I think it's ¾ of a percent.

(Inaudible)

Mike Pope: No, delta. No I'm just saying the delta in between old...is less that ¾ of percent I believe so it's a small percent. So we are just trying to use the dollars efficiently from a testing perspective. Just as an example, let's say we test the...we didn't test that meter set until year five, out...you know, and we're wrong, we owe you five years-worth of dollars on a short-fall check so it would behoove us to check, to do that every year. But I don't know that that's the efficient use of your dollars, or the Utilities dollar, so we want to focus the large revenue producing meters, which happen to be the, I believe, 2" and 3" and above and just really that wasn't that many in the 2" category. Most your meters fall in a 5/8", this is what we call them and then most of the revenue for the contract really falls in the large meters.

President Robinson: It's in the larger meter.

Mike Pope: That's where we want to spend the money and be very robust in the testing.

Councilwoman Brinkerhoff-Riley: And you'll be... JCI will actually be conducting the testing.

Mike Pope: Yes. We'll send it to a third party lab. What we do is we'll actually...and this is where, I think, we have opportunity to talk about going back in year six, seven and eight and how we do it. What happens in the testing procedure...let's take the small meter. We'll actually go and pull that sampling so we take the meter out of service, we put a new meter in its place, put the device back on, the radio/read device back on and then send that to a lab and the lab tests that meter and we'll get a report back on all those sets of meters.

On the large meter piece, they have to be tested in place. Now all those meters will be very...they're testable, again, that subset of meters that are not testable now, they're all going to be changed out, they'll be new. We'll have test ports; we'll be able to get the data and those will

be tested. That's what we...again, we want to spend those dollars. So, again, we've got a pretty rigorous program in testing and the nice thing about Indiana is the legislation is very flexible and allows you to kind of dictate how you want those tested. And again, I think the Utility thought it was the best use of their dollars from a testing perspective to go after the higher revenue stuff where the potential for us to be wrong, if we were wrong, would be greater. Again, the small meters are very...just a small piece of...5% of the overall savings so it's somewhat small.

Councilwoman Brinkerhoff-Riley: And JCI is actually...but under the contract, when you do conduct the testing, if the results don't reflect the guaranteed perforce, which I guess really only relates to the meters, then you're entitled to a re-test under the contract.

Mike Pope: Yes, under the contract. We can retest, and the same thing, if you don't agree with the results, you are entitled to a retest.

Councilwoman Brinkerhoff-Riley: And yet a third test would be conducted if the retest...let's say the initial test does not reveal savings; the retest does. That would lead to a third test?

Mike Pope: Potentially. I've never seen...

Councilwoman Brinkerhoff-Riley: The contract allows for a third test.

Mike Pope: Yeah, I've never seen it but it's on our dime if we continue to test.

Councilwoman Brinkerhoff-Riley: And whose discretion will be under the test and I want to go back to, for example, when the meters were tested initially to indicate the need for replacement. For example, if we look at the 2" meters, there were two meters that tested, one at 14.46% and one at 16.35%. JCI, under their discretion, excluded throughout the outlier and 14.46 but not the 16.35. So those were discretionary issues because if the 16.35% were thrown out, then the 2" meters don't need to be replaced. And if the residential meters, if we had excluded the second meter that tested at 35.47% accurate, we don't need new residential meters. And so who is going to decide those discretionary type of issues when we are looking...I mean I think it's critical to the value to the contract because you've set the standard by determining that our residential meters are only 98.6% accurate. If you control what gets thrown out as an outlier and what stays in the test sample, then obviously when we test those meters, residential meters in year five, I'd be shocked if they didn't meet the 99.5% standard, given that you would have that discretion regarding the testing sample.

Mike Pope: You know, and that's a great question because I think we spent probably hours and hours, a hundred hours of testimony on that particular piece. And if you look at Dr. Sirrals, we hire third party, independent reviewers and statistical analysis, and that's really what we're talking about: is the statistical analysis that we're talking about accurate? I'm not a statistician so I'll try to do the best I can. And, yeah we use a PhD and I don't know if I've ever met a PhD in statistics before but this guy is 32 years old and very brilliant.

So we use, again, outside resources to help us validate the accuracy of our data. So to your point, if I, and I'd be happy to do that, if I kept those outliers in, what happens is my savings doesn't go up, *(Inaudible)* my savings go up, my meter accuracy goes down and that delta gets bigger, which is actually good for me because now I can produce more cash flow in these contracts.

So we look at it and say, "Okay, based on a statistical sampling, we have a meter data base that we use as part of this for the last 15, 16 years, what makes the most sense on having these meters in?" And this is for the baseline year because if I would have left those outliers in, my savings projections would have been a lot higher than they were and probably not from a statistical analysis, and again, I don't know that I can explain it as good as Dr. Sirrals, but my analysis would have been better for Johnson Controls and worse for Evansville Water & Sewer. So we look at that, we take those outliers. A lot of people in the industry don't and they overstate the savings and that's all you're doing by not taking out an outlier. Now you can say, "Well why don't you take out all the outliers"? Well, they're not all outliers; that's the problem. If you go to a meter's population, you say, "You know what, I'm going to take out every meter that doesn't test 99.5% accurate". Well then, you don't have a...you have no savings and there is not a statistical analysis. So when we go through this, fortunately I think people like Bob and Umbaugh are going to be part of this and they will be able to dictate that process just as much as we can.

Councilwoman Brinkerhoff-Riley: Yeah I think...but you're making my point in that there is a discretion based on expertise and I believe your testimony...and by testimony I think what people need to understand is testimony is that you write your own questions and answers and submit it to the IURC, correct? We don't go...you don't go to a room and sit and get examined and cross-examined.

Mike Pope: Oh yeah. By IURC?

Councilwoman Brinkerhoff-Riley: Yeah. You submitted a written a written testimony. Is that correct?

Mike Pope: Oh yeah but I mean we...I...with IURC and OUCC I'm sure I spent over 100 hours.

Councilwoman Brinkerhoff-Riley: I guess my point is when you were questioned about it on the record you indicated that it...there was discretion you thought was a prudent...prudent was the word was the word that you used.

Mike Pope: Yeah but again, you're talking...when we get to the guarantee portion of it, there is not going to be...we are not going to have any outliers and this point. It's really...that statistical analysis, and there is really two pieces of that. So during the baseline analysis that we talked about earlier, we looked at that from a statistical standpoint so there is science behind everything we do. We don't just say, "Hey, I don't like that meter. I'm going to throw it out". There is a statistical analysis that's done, it's been proven and we've used it over and over again. When we go to the guarantee piece of that, now all of a sudden we are going to pick a representative sample of those meters and it's real easy cause they're all new.

Councilwoman Brinkerhoff-Riley: Well but they won't be all new. I mean you'll have that 40,000 that are new and 16,000 that are *(Inaudible)* about the residential.

Mike Pope: But the other piece is, again...and again, I don't want this to be a talk about statistical analysis cause I'm not the guy, but if I were to go into your system and say, "You know, forget about statistical analysis, forget about Dr. Sirrals, I'm going to drive the process". I

have the ability to go into your database, I can manage that data in your database and I can physically look at every meter that is not performing but that's not a statistical analysis. So what we do is we look at the age of the meter, we look at the use of the meter, we look at all those factors so we can get a representation so I'm not taking all your meters that are 20 years and older that I know we are going to have poor performance on them. I'm looking at new meters, old meters and a representative sample that is a true statistical sample of that meter base. When we do that, it establishes a baseline and once we've established that baseline, which is our guarantee going forward. Once we start to look at the meter population, I'm going to...I'm not taking out 15,000 meters....is that what...okay...I'm not testing those 15,000 meters cause I'm not...there is no guarantee involved with the...that test. I have no representation in the contract to effect. I'm not testing those meters and I'm not on the hook for any guarantee associated with those meters. There is no savings whatsoever in the contract for those 15,000 meters.

Councilwoman Brinkerhoff-Riley: No my point is simply that...

Mike Pope: So I'm going to look at the other population that is brand new and they are going to be exactly the same meter to route so...

Councilwoman Brinkerhoff-Riley: They still compare back to the baseline, which you at least would...I think...I believe that Mr. Kaufman, in his testimony before the IURC, questioned the sampling of both the residential and the 2" meters based on what...

Mike Pope: I would agree and hence the amount of time that we spent doing that, but in the end, he issued his order and approved it based on the testimony that I had given. Again, there are a lot of people behind me a lot smarter than me with the statistics and modeling and all that. But the reality is if I've got 40...so now I've got 45,000, 46,000 new meters in that population, there is no outlier. There is no...if I'm going to test...if I need to test 100 meters I'm going to test 100 meters and I throw nothing out. If I test another 100 meters it's not going to make a difference cause they are all the same age, all the same type and quite honestly, you have the ability in the contract to say, "No. I don't like it and I don't want to do that". I mean there are remedies in the contract so it's not...I don't want to represent that this is one side cause you are going to make decisions on what is tested and quite honestly, if you want to test the meters yourself in years five, six...I don't have a problem with that. It has to be AWWA standards that we follow so there is a process in place. It's not Johnson Controls saying, "Eh, I don't like it". It's a process we follow and it has proven out time and time again. The City of Anderson, the State of Indiana. We go through...the State of Indiana, they have third party verification every year for every one of the projects we do with them. Not everybody does that but that's certainly a standard. We do federal projects that are rigorously tested every year. So I feel comfortable that the data we are going to give you in the guarantee piece of it is very accurate and if there is a shortfall, with the State of Indiana we wrote a shortfall check two years ago for $167,000. So it does happen; it doesn't happen often. It's less than 1% of our overall guarantee but basically the guarantee is in place for that particular reason so I think there is opportunity to say, "Hey look, Johnson Controls tested this meter set...", but again, it's not really going to matter from a statistical sampling standpoint because all of those meters are the same, they are the same age and typically, they are going to run...you know, a family of four is going to use more water than a family of two, but they are going to be about the same so there is no...I mean I wouldn't anticipate any issues with saying, "Hey, we are throwing this out". There are no outliers at that point. The outliers are to make sure that we represent a statistical sampling correctly and that we didn't overstate savings. The worst thing I can do for you is to overstate savings and then under-

perform for that so we understate savings and we over-perform. That is our policy and it happens in the bulk of our contracts.

Councilwoman Brinkerhoff-Riley: The savings is actually calculated with your proprietary software, I believe it's H2 Optimizer...H2O Optimizer.

Mike Pope: Yeah, we have some software but that's more managing the data. Everything that we have that we'll do... I'd be happy to provide you a kind of a sample of what a savings report looks like. I think it would probably be helpful versus me trying to explain it but you know that's why it's critical to make sure you guys understand what it looks like but the savings part is really easy. It's a calculation I think that Umbaugh could do very easily without that software. The software is more on the baseline side of it and all that does it take all that data out of your system and allows us to look at all that data. So as an example, I can look meter...customer #123 and I can see what has happened with that customer over the last five, six years, whatever the information you have in your database. I think we look at three years or so. That's all that software package is doing; it really doesn't have anything to do when we start to calculate the guarantee, it's pretty straightforward. And so we pull a meter, test that meter set, it gets sent to a laboratory, AWWA certified. As test results come back, you guys get copies of those test results and then all those results are put into a report and that report, in fact, probably of the best things I get to do in my job is I get to come back to councils and boards and present those on an annual basis. I'll tell you, I have written shortfall checks. Not often, I've only done two in my career and I done, in the State of Indiana and Kentucky, which is my responsibility, I done about 300 million dollars of these projects in the last 12 years and I've only written two shortfall checks.

Councilman O'Daniel: You're talking about increased savings and you don't want to overstate the savings. I'm looking at Schedule 2A in the amended contract. It calls for and annual savings of about $306,000 of annual replacement labor cost of the meters. They're calling for 1600 meters to be replaced every year. That won't have to be done if this contract goes through. And I guess the question is that would mean they are on an eight or nine-year cycle if there's a total of 60,000 meters. We are not doing that now so isn't that overstating the annual replacement cost?

Mike Pope: We got the numbers directly from Evansville...those are directly from Evansville...

Councilman O'Daniel: *(Inaudible)* mutually agreed upon...

Mike Pope: Right.

Councilman O'Daniel:...and my question then, and maybe Allen can answer this, what is the number of meters that we're currently replacing on an annual basis? It's not 1600. And then what is the annual life, or the average life of the meters that we have in place?

Allen Mounts: I may need some help on this but I don't believe we are actually following AWWA guidelines for replacement. Fundamentally, a small meter, which is the majority of our meters, the recommendation is that they be removed, inspected or replaced every 10 years because the cost of the meter is so small, typically the choice is to replace them because it costs more to test it than it does to replace it. But from our staff, looking back under the prior management of it, they were not replacing the meters so as a result we had some pretty old meters in our system here that should have been replaced.

Councilman O'Daniel: If that's the case then a more robust maintenance package on the part of the Utility, or its predecessor, would actually net us out the increase revenue that Johnson Controls offers without the necessity of floating a bond or anything else...*TAPE CHANGE.* We wouldn't necessarily have the outliers that were tested that may be 15 years old and only 34% efficient so then the number that's used, and I'm talking about the 5/8" which are low-dollar, but if we replace them like we should have, maybe they would have been 99.3% accurate and the savings, the measured savings if you want to call it that, would have been far less. Likewise with the large meters, if we would also engage in a more accurate testing, which produced a 1.6 million dollar a year benefit, if we are talking about being efficient with our dollars, wouldn't it behoove us to replace only, or focus only on those 450 or 500 meters, replace them, re-coop the million six in increased efficiency, keep the meter readers on payroll, even the net amount of that, we are still up 1.2 million a year and over the course of 20 years that's 24 million dollars, not 9.5 which is what we are talking about. I mean, you know we could still do some of the other energy saving programs of this but if we focused our attention on the larger meters where all of increased revenue comes from, isn't that a more efficient use of the dollars?

Mike Pope: Let me talk about *(Inaudible)* because I've done...we've done over a million meter replacements. Think about a meter, and this is old technology you have in place which, again, at the time it was good and it's funny, everyone thinks, "Ah, that's a brass body and something spins around in it and it gives us a meter reading". But it's older technology. That older technology is eventually going to continue...it just continues to degrade; that is just the way they are, you know, so at some point they...not at some point...right now they are continuing to degrade. If I were to go out and do that same test, I'd probably find...because we did that testing in 2011, I would find probably more savings now in that small meter population because all it does...and again, if you go to AWWA standards, you can look at the degrading of the meter over a period of you know, five, ten, fifteen...whatever number you want to use. So that meter continues to degrade and right now we are saying, "Look, we are going to do it, let's do it all". Now we have a meter that's, you know, a 20, 25 year meter. We are focusing on the big ones, we are focusing on the small ones and it's the technology in place that allows you to do all the customer service stuff.

Councilman O'Daniel: So what happens in year 20 when all the meters need to be replaced all at once?

Mike Pope: Well probably year 25.

Councilman O'Daniel: Or 25 years.

Mike Pope: Well at some point, you're...

Councilman O'Daniel: You need to do it on a rotation *(Inaudible* again.

Mike Pope: They don't last forever.

Bob Clifford: The saving calculated in starting to replace the meters in, I think, the tenth year. They are guaranteed for 20 years, 100% guarantee for 10 years, after that it's a declining guarantee by a Sensus of 10% per year so we built in a replacement cost for those in the last 10 years so that's part of the calculations of the savings.

Councilman O'Daniel: *Microphone Off – Inaudible*

Bob Clifford: That would be the duty of the Utility; that's what utilities do.

Allen Mounts: You know I appreciate your comment but for some of us it's the woulda, coulda, shoulda looking back. There are a lot of things that I could look at and wish that it'd be done differently but there is that discipline. I appreciate that you recognize that we need to think about this as a refresh strategy and how to manage through that as oppose to letting it build up and defer the maintenance that needs to happen so part of the situation we are faced with today is the deferral of those decisions so trying to *(Inaudible)* up to where we think is a reasonable effort and then migrate into a more of a refresh strategy so it smoothes that out. That's going to happen over time; it won't happen overnight, but going forward I agree wholeheartedly with you.

Councilman O'Daniel: What happens to the 15 or 16 thousand meters that will be getting retrofitted five years out?

Allen Mounts: Five years out, you know…

Councilman O'Daniel: If they're under six years, is that the ones that are to be replaced?

Allen Mounts: From what I've seen, and again I probably have to defer to my staff here, but what I've heard from asking those questions is that typically it costs more to test the meters so probably you're replacing small meters 10 years out. I guess under best practices, AWWA, American Water Works Association, recommends that you…it's not a mandate but in terms of best practices that you remove, test or replace those meters and so we try to be on a ten-year cycle. With the larger meters, I'd say 3" and above, what I've seen is a testing cycle that's anywhere from three down to one year for the really large meters, that might be 5" or a 6" or an 8" meter, you need to get out and be looking at those every year.

It's a tiered strategy based on the size of the meter. Obviously, the larger meters are more critical because there is a lot more volume going through those, hundreds of thousands of gallons as opposed to a residential meter that might be 4000 gallons in a month.

Councilman Friend: Can I ask one? When we went back in *(Inaudible),* you took out the warranty expense originally for the original proposal. Well one thing that I notice Allen, you didn't have anything…surely if you take the warranty out, which is about seven…it was a big number, we didn't put it back in. Without warranties, we are going to have to make up for that. Shouldn't it have been a cost benefit added back into that deal?

Allen Mounts: I think that's on the SmartPoint™ transmitters. I'm looking around here…Roger maybe for some help there but in looking at whether or not the value of buying that insurance, if you will, was appropriate. From the due diligence work that our Water Superintendent did, he recommended that it's not necessary to do that.

Councilman Friend: We surely would have some costs though involved with that.

Roger Johnson: Roger Johnson, Water Superintendent. What you're referring to is the full 20-year guarantee on the radio read units that attaches to the meters. It's not the meter itself, it has nothing to do with the meter. This is the unit that sends the radio signal to these nine towers

we've talked about. That's...those have a 10-year, full replacement guarantee and the last 10 years is a pro-rated guarantee. What was in the original contract was...since it was a 20-year project, it was thought originally that we'd want a full 20-year guarantee to last the full length of the project. In talking with the manufacturers that make these units, we got data that showed the rate of failure of these units on a typical basis and the rate of failure was so small in years 10 – 20 that it wasn't prudent to pay the extra cost to that extra 10-year full warranty. There will be some of these units that fail; there will be some that will fail in year 1. I mean things, technological pieces of equipment fail so we might have some fail in year 1 all the way through year-20, but if they fail in years 1 through10 it's replaced free. So we specifically looked at the rate of failure between years 10 and 20 and it was determined that the cost that it would cost us to replace those units that would fail in that time period was nowhere close to what it was going to cost to get the additional 10-year guarantee so we decided against buying that.

Councilwoman Brinkerhoff-Riley: You are talking about a warranty on the equipment, that the equipment is actually warrantied for 10 years, the meter-reader itself.

Roger Johnson: The radio unit that sends the signal.

Councilwoman Brinkerhoff-Riley: Okay. The guarantee being the guarantee provided by JCI; you are talking about the...

Roger Johnson: Manufacturer's warranty.

Councilwoman Brinkerhoff-Riley: So the manufacturer's warranty is 10 years on the equipment. That's what you've opted for.

Roger Johnson: The warranty, the manufacturer's guarantee is 20 years; 10 years full replacement, 10-year pro-rated.

Councilwoman Brinkerhoff-Riley: Okay.

Roger Johnson: And what we declined to purchase, that was in the original contract, was a full 20 year. It was going to take the 10, the last 10-year pro-rated and make that a full replacement instead of a pro-rated and that's what the rate of failure analysis showed; it was not worth purchasing that.

Councilman Friend: But we would have some additional costs though. We'd have to have something in there.

Roger Johnson: That's right. There'll be units that will fail.

Councilman Friend: But I mean that wasn't added back in, it didn't look like.

Unidentified Speaker: It was.

Councilman Friend: It was? Was it added back? Okay. Alright.

By the way, I have a question for you please, Bob. One question I need to ask. Thank you for your letter you sent to me a while back.

Bob Clifford: You're welcome.

Councilman Friend: One thing you put in there I understand. You are taking the savings and you're indicating that savings is going to be invested.

Bob Clifford: Right.

Councilman Friend: We talked about this. And that becomes an ad-back at the end, which becomes a significant savings at the end. Am I correct about that? As I recall the savings that you're going to have…

Bob Clifford: Are you referring to the debt service reserve?

Councilman Friend: Debt service reserve.

Bob Clifford: Okay.

Councilman Friend: What was the rate of return that you used in that?

Bob Clifford: Probably .1%. A tenth of a percent.

Councilman Friend: Okay so from that…that generated…okay. *(Inaudible)* Point ten?

Bob Clifford: I'll have to double check but it was…it's very low. All the forecasts and estimates we do today 10 basis points or less because you can't earn very much money on investments.

Councilman Friend: Okay, thank you.

Councilman McGinn: I have a question and I'm not sure who it's directed to but I…you mention a big number of projects that are done so if someone can tell me from JCI, I mean who has a contract, how many contracts and agreements very similar to this are in effect in cities, and then since you monitor it, are they able to make their payment, their bond payment out of money that they're saving and recovering without trying to raise rates, or having to raise rates.

Bob Clifford: Yes. As part of the due diligence process we wanted to, you know, make sure that guys chose or had the opportunity to choose a technology that made the most sense here, we are using a Sensus product. There are probably three or four others that are really good and at AMI, and AMI is really that robust technology that allows you to do the leak detection and all that. If we talked about like Princeton and Mt. Vernon, which are projects we did, that's more of a drive-by technology. They just don't have a big coverage area so in one day someone can drive it and they just don't need the data that represents 60 some thousand connections so…

Councilman McGinn: Well maybe I…

Bob Clifford: No but I'm just saying…so if you look at Mt. Vernon, Princeton, Bedford, smaller systems, they have been under the guarantee. Mt. Vernon has been under the guarantee for I believe five years now, Bedford three, and I think there might be some information in your

binder that...do we have some letters from...some case studies from some of our cities. Probably one of...
Councilman McGinn: I just got this today so...I mean....

Bob Clifford: And I apologize. We probably should have gone through it a little bit more. Probably a city...so what we did is we wanted to make sure from a technology standpoint that your people could go look at the technology. We actually took a trip to Olethe, Kansas and it has that Sensus product and they are under the guarantee. It's been about three years for them so we've got three years-worth of reports. The city that I'd probably send you a report on would be the city of Anderson where we actually have water and electric connections of about 68 thousand. They went through the same process with IURC, they are currently installed for about five years now, and we have filed, I believe, four reports with the Lt. Governor's Office on the savings. They would be a good one. But that would be the one I'd probably send you so you could look at and see how we do our savings report.

We have a list of...

Councilman McGinn: Yeah, I... I really would. I mean I think it may be in your best interest too to send us some savings reports because I talked to the fellow from Olethe, Kansas, I mean he seems like a very nice fellow. I called him last year when this thing first came up. He said, "Yeah, we are making all kinds of money but it, you know, we are in the second year of the biggest drought we've ever had and people are watering their lawns more". He didn't know whether they were just using more water or not so that scared me.

Bob Clifford: Yeah and that's what...and that is some of the due diligence we look at when we figure out the baseline.

Councilman McGinn: Yeah.

Bob Clifford: You know you don't want to be in a heavy rain event, summer, versus a drought, so those are calculations but I can send you a list of 10, 20, however many you want. We have about 150 customers that are just water, wastewater only. We have about 3500 local government customers that have done projects that have...if you go down to Louisville, as an example, we are just signing our contract with them for Phase II, which is about a 42 million dollar contract so there are a lot of people that have done different types of projects but I can send you water specific.

Councilman McGinn: Yeah, well I mean it would help me, and probably everyone here, if we could look at your...the track record. Is this...

Bob Clifford: Oh sure.

Councilman McGinn:...successful. Are we going...if we put a...float a bond issue out and we've got a yearly payment debt service of, you know, x.x million dollars a year, I want to find out if the people who did that are saving and making enough money that they're paying that without having to worry about what they are going to do, or credit expenses or trying to do a rate increase or contact you for, you know, for making up a shortfall.

Bob Clifford: Yep, love to do that. What I'll do is I'll...

Councilman McGinn: The biggest stack you can get me. How big are these reports first? Are they like two pages?

Bob Clifford: Yeah, be careful what you wish for.

Laughter

Councilman McGinn: Yeah I know, that's why I asked the size.

Bob Clifford: Well we try to…there are two versions. There is an Executive Summary. Most of our mayors want to look at the, "Did I save the money or not save the money"? Then there is a version that we give to the Utility Directors, which has all the calculations, so if you really want to delve in deep you really need the Utility Director version.

Councilman McGinn: I personally want the Executive Summary.

Bob Clifford: Okay, we'll send you the Executive Summary and that's probably about 15-20 pages.

Councilman McGinn: If you can send them to the Clerk. Are you talking email?

Bob Clifford: Yeah I…

Councilman McGinn: If you can send it there then she can send it to each of us.

Bob Clifford: And if not I can put it on a thumb drive or a disc or something.

Councilman McGinn: Whichever is the easiest for you.

Councilman Friend: Excuse me, I have one question for you.

Bob Clifford: Sure.

Councilman Friend: Most of the…if this thing went through, you're going to…most of it is going to be subbed to subcontractors, is that true? You guys going to act kind of like a GC in this deal?

Councilman McGinn: Yeah, we are going to provide…I have very talented and trained project managers. All they do is water and wastewater. In fact, I believe…who lives here in Evansville? Oh Monte Merkel, I could not remember his name. Monte Merkel, who is actually an Evansville resident, will oversee the project. He has worked all over the United States installing these types of systems and he is an Evansville native so he'll be here locally. Probably about three project managers. We will perform some of the work; the testing, and some of the pulling of the meters. We will use local contractors; I think PPMI was mentioned. We've made a commitment to 90 plus percent local content and we will have a very robust plan Minority and Women Businesses as well.

Councilman Friend: Are you going to be using ESG?

Bob Clifford: Yes we are.

Councilman Friend: Going to be *(Inaudible)*. Well I'm just curious, what's your average mark-up on all this stuff?

Bob Clifford: Our average mark-up?

Councilman Friend: Yeah.

Bob Clifford: Probably 25%. Here we are I think at12. Industry standard is about 25%. I think we're probably about 12% here, well below the industry standard.

Again, I think one of the things we haven't really talked about is the, again, the local content and minorities and there is some information *(Inaudible)*. But we, as an example, *(Inaudible)* Louisville the first phase, they mandated 20%; we came in at 32% so it's very important that we use local and minority business here.

Councilwoman Brinkerhoff –Riley: Yeah, I've got three or four.

President Robinson: You've got three or four more questions?

Councilwoman Brinkerhoff –Riley: Sorry.

Laughter

Bob Clifford: We are happy to answer whatever…for me or for…

Councilwoman Brinkerhoff –Riley: Well maybe you can...

Bob Clifford: I'll try.

Councilwoman Brinkerhoff –Riley: It's this chart…

Bob Clifford: And I'll keep my answers short.

Councilwoman Brinkerhoff –Riley: I struggle to understand. The large meter…

(Inaudible)

Councilwoman Brinkerhoff –Riley: This chart right here. Are these the meters, the subset meters…are these the meters that weren't testable?

Bob Clifford: Not testable, yes that's…

Councilwoman Brinkerhoff –Riley: Okay.

Bob Clifford: *(Inaudible)* notice that they are all 88.5%.

Councilwoman Brinkerhoff –Riley: Well there is actually one at 68.5, there are a couple at…one at 78.5. There are a couple that aren't at 88.5.

Mike Pope: The ones that were non-testable in that set were recognized to be 88..5%.

Councilwoman Brinkerhoff –Riley: Okay. And is it safe to say that those non-testable meters, on this chart is Schedule 2A, Page 17, really make up the greatest amount of revenue?

Mike Pope: Um…no.

Councilwoman Brinkerhoff –Riley: You don't think so?

Mike Pope: They make up a pretty good portion of the overall revenue. They make up *(Inaudible)* about $500,000 or 1.9. But remember, those get moved from non-testable to testable under construction so what we, you know, we'll look at that and put that from the, you know, again, measured, or non-measured to measured category once we are able to test them. We feel very comfortable. Our people *(Inaudible)* that that was a very conservative number so we think we'll drive additional revenue out of that meter subset.

Councilwoman Brinkerhoff –Riley: Okay. And then just for the record, right now there is no functional ability to provide the guarantee beyond year five because the contract only, at least the current contract, only envisions five years of a testing program.

Mike Pope: Yeah and that…maybe I didn't explain it but the measurement verification protocol that we have, as I described, was very robust during that five year…but Indiana Statute basically says we are on the hook for the full 20-year guarantee. It's the, "How do we test…"?

Councilwoman Brinkerhoff –Riley: That has to be negotiated.

Mike Pope: That has to be negotiated, yes. The guarantee stays in place and if you look at the statute, I think we provided you a copy in the back, it does state that it needs to be for the full term of financing. So the guarantee will be in place but how do we reconcile the guarantee is really the issue and do continue to do it, although, again, years 6 through 20 will be a lot less than years 1 through 5 because there is training in other components of that that costs.

Councilwoman Brinkerhoff –Riley: Okay. In then Schedule 4A, I mean Schedule 4, Page 1 states that JCI has made an offer of financing…

Mike Pope: *(Inaudible)* yeah.

Councilwoman Brinkerhoff –Riley: Schedule 4…it says, "Customer acknowledges that JCI has obtained an offer of financing for this project and has provided a copy of this offer to the customer".

Mike Pope: Correct.

Councilwoman Brinkerhoff –Riley: As an alternate form of financing been offered to the City of Evansville other than the bond that is before this body?

Mike Pope: Yes we discussed early on...I think Bob made reference to the Certificates of Participation, which is a little bit different scenario but it includes a...it's a higher rate so...

Councilwoman Brinkerhoff –Riley: What is the higher rate?

Mike Pope: I want to say about 4%, 4.1%.

Councilwoman Brinkerhoff –Riley: As a starting because they go up over the life of the...

Mike Pope: No

Corporate Counsel Ziemer: Excuse me. Yeah, there has been discussion that we have never been presented with any document that describes the alternate financing.

Councilwoman Brinkerhoff –Riley: Oh, I'm just reading the contract that says you've been provided an offer.

Corporate Counsel Ziemer: And I just responded.

Mike Pope: Now we have, I think early on Umbaugh looked at the opportunity...and get the lowest cost, interest cost, but we've talked Certificates of Participation that just happen to be at a higher interest rate. Bonding is the best. Right now, they are historically low rates that are available. We just did an issuance with the State of Indiana at 1.7% so, you know, it's good money. But that's really what it is, it's the...

Councilwoman Brinkerhoff –Riley: Bust JCI itself though has a financing arm.

Mike Pope: We have...we...well yes and no. We tend not to finance most of these projects; we do some. And the customer...we tend to do it with our small customers that don't have somebody like an Umbaugh & Associates and a staff that understands financing, so in that case, yeah. For some of our small...like Mt. Vernon, our first phase with them was very small and they used us to help them get a tax-exempt lease. This last phase, they've got about 15 million dollars of projects. This last phase, I believe...and they bonded for those projects because the money was cheaper so it really depends on the customer. It just happens you guys have a very high level of staff here able to get it. So yes, we do provide it on occasion.

President Robinson: Are there any other questions from any Councilmembers?

Councilwoman Brinkerhoff –Riley: I had a question for Mr. Mounts. What's our current debt level like? What's the big picture of the debt for the water and the sewer.

Allen Mounts: I don't have...I know on the sewer side, our debt service level is about 12 million dollars per year and it's six-ish on the water side.

Councilwoman Brinkerhoff –Riley: So our annual debt service is about 18 million.

Allen Mounts: Yes. .

Councilwoman Brinkerhoff –Riley: Okay

Councilman Friend: I think our rate-payers need to understand this too, that their basically getting something that they're not paying for. That's what the premise is here.

Allen Mounts: That's correct.

Councilman Friend: Okay, so our people need to know this indeed, in a round-about way, would be a rate increase for them because they are going to pay. They are going to pay for what they're not…

You follow what I mean? In other words, they could very easily see increases in their water bill just for the fact they're going to be getting billed for the product they're getting. So, but see the average homeowner doesn't know, they just see the water bill.

Allen Mounts: Yeah but the water bills will not increase as a result of this project. They may increase because of future projects.

Councilman Friend: Sure, I understand but I just want to make that clear that that could very well happen to the ratepayers.

Councilwoman Brinkerhoff–Riley: Well your water bill would increase as a result of this project. If you have a meter that's below the level of proposed efficiency…

Allen Mounts: With respect to any inaccuracies that are there, that is correct. With respect to an assumed overall increase in rates or bills as a result of the project, no. But specifically if your meter is inaccurate and it's under-reading the water that you're receiving today and not paying for, yes, your bill will go up.

Councilwoman Brinkerhoff–Riley: And for some people…I mean, and frankly, I mean a good deal of this project is…I mean when we talk about savings…I mean a good percentage of that is increased revenue. I mean the ratepayer will be…I mean if you've got someone who is unlucky enough to have an inaccurate meter then they will see an increase.

Allen Mounts: That's correct. With larger customers, that would be correct.

Councilwoman Brinkerhoff–Riley: Correct. For residential the range is only about .9% in terms of inaccuracy.

Allen Mounts: It's pretty small, yeah.

Corporate Counsel Ziemer: Councilwoman Brinkerhoff-Riley, the other side of that is that it's unfair to ratepayers who are paying the correct amount to be subsidizing people who inadvertently are paying a lesser amount so…

Councilwoman Brinkerhoff –Riley: No, I would agree with that and so it begs the question of why have we…we're…the estimated savings on these commercial, these 50 commercial customers, is actually in the neighborhood of 800 thousand dollars a year. We've mutually agreed to reduce that…in the chart it reduces down to 500 thousand so for our biggest customers that potentially would see the greatest increase in their bill, we are softening the blow and easing them into their higher rate, is that correct?

Multiple Speakers Speaking off Microphone - Inaudible

Allen Mounts: Stephanie could you…

Councilwoman Brinkerhoff –Riley: Where is that chart? It's this chart right here that…it's this Large Meter Testing. It says, "The revised mutually agreeable annual benefit is $500,792.

Allen Mounts: Those are for the non-testable meters.

Councilwoman Brinkerhoff –Riley: Right. I'm sorry. I guess I didn't hear what you said.

Allen Mounts: *(Inaudible)* I assume that's for the non-testable meters.

Councilwoman Brinkerhoff –Riley: That's correct.

Allen Mounts: Okay.

Councilwoman Brinkerhoff–Riley: So you've got where you state that you're actually losing close to 800 thousand but you revised that down to 500 on a mutual…through a mutual agreement. So I understood that to mean in terms of actual revenue increase that you would be not collecting the full amount that was actually…that we're losing.

Allen Mounts: I think that that has to do with the guarantee. Since the meters weren't testable, I don't think Johnson Controls wanted to guarantee the full 800 thousand so they agreed to guarantee a 500 thousand dollar pick-up. There is not a phase-in for the particular customer or anything like that, it's just protection for them because those meters were never tested so they had to bite the bullet and say we are going to guarantee a certain portion of this and it was negotiated at that point.

Councilwoman Brinkerhoff–Riley: Well what happens now that these non-tested meters when the meter gets replaced and they move into the testable, what happens to that 500 thousand guarantee?

Allen Mounts: Well the guarantee wouldn't change but what the customer is paying would be based on the actual meter read, on the actual usage then.

Councilwoman Brinkerhoff–Riley: Okay. So that could be a windfall for us or not, we just have to see.

Allen Mounts: That's correct, we just have to see.

Councilman Lindsey: Doesn't this fall back to what Conor was saying; due diligence by the utility? I mean we are right back to the comment that he made. If they were replacing the meters at the rate they should have been then we wouldn't be having all these problems. Is that correct? I mean if we…I mean that's the truest statement that's been made here, you know. Take care of your business and you won't fall under this.

Councilman Friend: Allen, can I have one question. What I thought was odd in the petition, the IURC came in and said that they could go as high as 5.5%. Is that true?

Allen Mounts: That's…

Councilman Friend: That seems to be really…

Allen Mounts: That's Ed Kaufman's, yeah, that's Ed Kaufman's statement, which it speaks on its own merit. The actual financing though, as you've already heard today, if we use traditional bond financing it will be significantly less than that so…

I can't speak on behalf of Mr. Kaufman…

Councilman Friend: Well no, I noticed that. It kind of took me back .

Councilman O'Daniel: Well and wasn't some of the savings based upon a projection of I guess what, 3.9, 3.6…

Councilman Friend: 3.9

Councilman O'Daniel:…for the bond and you're talking about maybe less than two?

Allen Mounts: You know, who really knows what it will actually be. I would say it's probably going to be low threes or even below a three. We won't really know until…

Councilman O'Daniel: I heard a 1.6 something earlier.

Allen Mounts: What, what…on the sewage bond refunding that we just recently did, that was 1.6%. It's a different deal. This one is more complicated so I don't know where the final financing will land but we expect it will be far south of the 3.9%.

Corporate Counsel Ziemer: South of what Umbaugh has projected?

Allen Mounts: Yeah.

Councilman Weaver: Allen, I'm not seeing the point of the extra fiber loop. What's the plan, really with that and how are we going take care of it over time?

Allen Mounts: I'm not sure if I understand what you're asking Jonathan.

Councilman Weaver: Doesn't the proposal have fiber…more fiber to be laid and not use the current infrastructure of fiber.

Allen Mounts: If you, and I'll try to back up a little bit here, but when the original contract was put together, the plan was to enforce that and it was a more robust arrangement, if you will, that would involve public Wi-Fi, public safety and so the size of what they built out there was a larger component. When we restructured it we still kept with the in-house strategy but that's the way of carrying the data. With respect to, once you put that infrastructure in place, what we recognize is it will have opportunities for other economic benefit even though that's not in the

scope of what we're talking about today, because you just put that in place, it gives you the capacity to scale it for other needs that the City may have. And why you're doing it, it makes sense to make the investment now if you are going to make it.

Councilman O'Daniel: I'll just ask this. Who is going to manage that fiber optic loop in the computer software and everything that goes with it? Will it be in-house, i.e., Advanced Consulting or Mark Riley Consulting or is this going to be somebody else and does that have to be bid out separately?

Allen Mounts: Well it's…the initial thought it would be managed in-house or IT area but, you know, obviously there have been some openings there so kind of wait and see. I've been just kind taking it one step at a time going through the process here and once we reach that doorstep then we'll look at how it's going to be managed.

Councilman O'Daniel: That would not be under the contract as it exists with the City now…

Allen Mounts: Some of it would…some of it is and some of it isn't but there would incremental maintenance, if you will, related to components of the fiber optic network. Perhaps not so much the fiber optic but the other hardware that's attached to it.

Councilman O'Daniel: Well what's going to be the cost of that and was that figured into the cost of the project?

Allen Mounts: I can't recall Bob if we had a placeholder or not, relative to on-gong maintenance costs for the IT side of it.

Chris Downs: Good evening Council, my name is Chris Downs. I'm an engineer with Johnson Controls.

We built into the fiber service level agreements for the first two years to cover maintenance and operations and maintenance and administration. That's built in; we are paying that up front out of the project. The plan was the savings from the fiber optics that are already in place. The leases that are in place right now that would go away would more than be enough to handle that…those administration expenses.

Councilman O'Daniel: What leases would go away?

Chris Downs: There's…and AT&T is here; they can certainly elaborate but there are…

Councilman O'Daniel: *(Inaudible)* five year contract?

Chris Downs: We have money in to buyout the existing OPT-E-MAN® fiber lease agreements. It's approximately 172 thousand dollars year. Those savings go away so bank those savings for the first two years, we cover the service level agreements through the project, and the savings then are used towards the administration of the network.

Councilman O'Daniel: Okay so the buyout of AT&T for…is it just the five years, right?

Chris Downs: I believe you are in year…you've got maybe two years left on the agreement.

Councilman O'Daniel: Okay so you are buying them out for 350 thousand.

Chris Downs: The contract I believe says 50%, yes, that is built into…

Councilman O'Daniel: So that's built into that.

Chris Downs: Yeah it's in our contract and Johnson is paying that fee. And with regards…

Councilman O'Daniel: What happens after year-two?

Chris Downs: What happens after year-two? Then the administration is covered under the City, under…either out-sourced or in-sourced.

Councilman O'Daniel: And that's not figured into the number.

Chris Downs: No but it would be…the plan was during negotiations that the savings to the City would more than offset the administration expenses.

Councilman O'Daniel: What was the…what number were you extrapolating on? The 172 thousand? I mean is that the number that you were sort of using as a savings, going forward, even if there is no contract or did you plug a number in there and say, "Well, it will be more than enough to offset".

Chris Downs: We got some bids and they came in around 200 thousand dollars.

Councilman O'Daniel: A year?

Chris Downs: Correct.

Councilman O'Daniel: And is that number built in for 18 years…is that number built into the 9.5 million?

Chris Downs: No it is not. The plan was the savings that are going to go away and the expenses now would be enough to offset.

Councilman O'Daniel: So that's 3.6 million, give or take, so now instead of 9.5 million we are down to about 6.

Mike Pope: You are going have, for the next 18 years, 175 thousand dollars. We just fixed that cost; we're not taking escalation on that. You will have a savings. We then take that savings and…any calculation within the contract so we didn't use that reduction of the OPT-E-MAN® as a savings calculation in our base contract. We kept those dollars separate so that you would have them for the service level agreements so the 175 will offset the 200 thousand that we have current bids on to maintain that. And again, there were…if you do it in-house certainly the scenario changes so there is no net effect other than maybe 25 thousand dollars a year, but again, once we start negotiating we think we can get these contracts in so it's a zero effect on the contract.

Again, right now you're baying 175 thousand. That goes away and you can redirect those dollars to pay for the maintenance of the system.

Councilman O'Daniel: Well isn't that assuming that we couldn't renegotiate that number down too?

Mike Pope: Yeah. I mean you can renegotiate. That's what I said; both of those numbers can be renegotiated so I think the plan is let's take a look and see what the best option is and how to manage that piece of it but we wanted to make sure you were covered for at least the first couple of years while we develop that system.

And Mr. Friend, I don't know that we answered your question on the cellular piece. I started thinking about...well, when your first question when you were asking about cellular...

Councilman Friend: Yes.

Mike Pope: And I don't know that we answered it properly but let me give you an example and you can talk to Anderson as one of the examples. When we went from...and they've got a fiber ring as well so it's a very good example where we put in a fiber ring to read the meters. Now what you do with that fiber ring beyond that is up to you. Sometimes they give free service to the schools or do something with it but it's a very robust ring.

If we were to use cellular technology, cellular technology and the amount of data that we are going to have driving over that fiber ring, cellular technology would not do it. So as an example if I was going to do, and I think Allen stated hour, but the technology can really take 15-minute intervals so I can get that reading from all 60 some thousand of my meters every 15 minutes. If I were to do that and I had cellular technology I'd have something happen in that and I would lose that piece of it. That's why we actually went to the microwave technology. We did a propagation study of the 45 square mile territory and that's how we came up with tower placements and do we use cellular or do we use microwave and how do they connect to that fiber. And I don't know again if we answered that question for you very adequately.

Councilman Friend: Well great...you think you could make available that study so we can look at it?

Mike Pope: The propagation study?

Councilman Friend: Yeah.

Mike Pope: Yeah.

Councilman Friend: Okay.

Mike Pope: It's a map with a bunch of dots.

Councilman Friend: That's fine.

Mike Pope: That's what you'll see. It means something different to us. Yeah it's basically a study that says where...cause we have to know where to put those towers because again, we are

shooting for 99.9% availability of that network to pick-up meters. There is never 100% in anything where we had somebody run over or something not working within that, that sends reports so 99.9%, and that's how we did the propagation study. But the amount of data that's going to come over is really why the fiber was selected so it goes from the meter pit, to the tower…it's a device again, two radio reads, and from the tower it will go to the fiber and the fiber backhaul comes back into the billing office and then they have the use of all that data and can manage that data.

Again, when we did Anderson, we had a temporary cell technology and the system would crash every…we could only read it every, you know, every six hours or so. We just couldn't transmit that much data even with the speeds we are getting out of cell technology, it's not even close to what the technology is on the fiber.

Councilman Friend: Well what I was wondering about cause you guys are going to use a 10 gig system on this I believe, are you not?

Mike Pope: Is that correct? Ten gig?

(Unidentified Speaker – Off Microphone - Inaudible)

Councilman Friend: Yeah, I mean…

(Unidentified Speaker – Off Microphone - Inaudible)

Councilman Friend: Yeah, keep in mind that's powerhouse stuff, you know, and what I'm saying is we wonder when you go with that extra cost for the powerhouse, you know, its…you wonder…we…are we going to be drinking from a fire hydrant?

Mike Pope: Yeah, it's…I'll explain it to you. It's more than what you need for the Utility but if I were to have an incremental cost to do that later on, the cost would be…it's incremental now, it's small, but since I'm installing it it's really just…it's kind of a plug and play, yeah I can use that, actually it's a very accurate term so it's kind of a plug and play but I can get that speed without…I don't know, 100 thousand, 150 thousand, it was a very small incremental cost and it made sense to do that now versus…

You know once I string all that fiber, I'm not going to go string more fiber to get you 10 gigs so I might as well do it now, you've got, what you do with it is up to you but it'll certainly be…

Councilman Friend: Let me ask you one thing though. If you went down…it would be nice to know what the costs differentials were. If you got away from the 10 gig and you went to the ones that would satisfy the Utility, what's that cost difference?

Mike Pope: I'll have to look back; I certainly can get that information to you but again, it was in the…was hundreds of thousands. It wasn't significant in the overall scheme. I mean it's significant dollars but in the scheme of…

(Unidentified Speaker – Off Microphone - Inaudible)

Mike Pope: I'd have to go back and look.

(Unidentified Speaker – Off Microphone - Inaudible)

Mike Pope: I'd have to go back and look. I…

(Unidentified Speaker – Off Microphone - Inaudible)

Mike Pope: Do it right the first time. Well you know it's just either do you want one line strung or do you want two or three lines strung? That's the decision you can make. If I want 10 gigs down the road do I string a line right now that provides me just enough and maybe a little bit more to get the utility and then I have to go string two or three more lines down the road or I just string one line. And again, I think it's not much money…

Councilman Friend: The only reason I ask that cause we're going to be dealing with this later with the IT side of it. Sometimes I think we kind of drink from a fire hydrant and trying to hold our cost down. That's just why I'm asking, you know.

Mike Pope: I can guarantee you from a technology standpoint, nobody's ever complained that they had too much capacity. Everybody complains that, "I don't have enough capacity. Why didn't I build it right the first time?" And that's kind of what the program is about. We were all surprised when the costs started coming back and we looked at it and said, "Okay, again for a tiny piece of it…you know, a hundredth of a percent of the cost of the project, we could have a very robust system". And again you're right, it's certainly more that the Utility needs but what I think…when Greg was up here and talking about, you know, the opportunity for a business…you know you were talking about health care the other day and hotels and all those things. And what you do with it, and I don't think anything's been, you know, certainly we don't know what the capability is or what you want to do with it but the possibility is there. At least you have the infrastructure to do something with it. If you choose not to do anything with it that's fine but you're never going to go back and say, "Why didn't we do this right the first time?" I can guarantee that.

Councilman McGinn: I just have a quick question. This is kind of a practical thing. If in fact this body does not approve a bond issue, you have a contractual provision that says the City is obligated to take reasonable financing provided by you. Is that a fair statement?

Mike Pope: *(Inaudible)*

Councilman McGinn: That's a ye…? You have to say yes or no to that to be picked up…

Mike Pope: I'm sorry, yes. I think that was one of the…

Councilman McGinn: I just thought maybe we ought to clarify that. Thanks.

Councilman O'Daniel: So picking up on that, the City is on the hook as it stands now. It's just a matter of whether or we approve a method of financing that could keep the costs lower, or go to a bank, of Johnson Controls.

Mike Pope: Ted, you want to answer that question?

Councilman O'Daniel: Would that be a fair statement? The ink is all dry, right?

Corporate Counsel Ziemer: Yeah, ask me the question again.

Councilman O'Daniel: Well, the City is on the hook at this point. The question then becomes is the method of financing and whether or not we can do it through a bond issue, which will keep the costs lower, or whether we would go to traditional financing through a bank or Johnson Controls.

Corporate Counsel Ziemer: The City has a decision to make if this Council does not approve what will be very economical financing for this project.

Councilman O'Daniel: The City, through the Mayor, has signed a contract with Johnson Controls.

Corporate Counsel Ziemer: Right.

Councilman O'Daniel: The Utility has I should say.

Corporate Counsel Ziemer: The Utility has, yes.

Councilman O'Daniel: That has obligated itself to do this project as long as reasonable financing terms can be obtained. I think there were a couple of provisions. If it was not denied by the IURC; now it has been approved.

Corporate Counsel Ziemer: Right.

Councilman O'Daniel: Assuming that that continues then they've met that *(Inaudible),* the question is financing and they have, I guess, reasonable financing…

Corporate Counsel Ziemer: The question will be whether it's reasonable financing and that's for a court to determine.

Councilman O'Daniel: Well but hasn't the IURC, or at least through Mr. Kaufman, indicated that essentially anything up to 5.5% would be deemed reasonable?

Corporate Counsel Ziemer: That's true.

Councilman O'Daniel: And we know that now it's 4.1 so they've met that part of it; so we are on the hook.

Corporate Counsel Ziemer: Legally speaking.

Councilman O'Daniel: Okay, I'll withdraw the question.

Corporate Counsel Ziemer: You don't need to withdraw it. Really I think the more reasonable approach is to consider what is the most economical financing for the City, which would be the 1.6% probably through a bond issue.

Councilman O'Daniel: Let me say it this way. You're coming to us is not about whether the project will be done or not, it's whether or not we are going to authorize financing at a lower rate than what you would otherwise have to…

Corporate Counsel Ziemer: Yes.

Councilman O'Daniel: So we have no say in whether this project gets done.

Corporate Counsel Ziemer: You know, it's…the Administration is the one that enters into contracts for the City and the Council provides for financing. And so we are seeking financing from the Council, or we will be…it's in a month probably, and we trust that the Council will want to do what's most reasonable and that is bond financing at probably a 1.6% rate.

(Unidentified Speaker – Off Microphone - Inaudible)

Councilman O'Daniel: Maybe twice that.

(Unidentified Speaker – Off Microphone - Inaudible)

Corporate Counsel Ziemer: 2.9%. I'm sorry.

Councilman O'Daniel: Fair enough. They'll make up the difference?

President Robinson: Any questions from any Councilmembers? I have two individuals from the audience. Jeff Day?

Unidentified Speaker: He left earlier.

President Robinson: And Berniece Tirmenstein.

Berniece Tirmenstein: Berniece Tirmenstein, 1600 block of Blackford Avenue.

As I think back on the management of the Water Department, some things come to mind. The following information was given to me by two former employees of the Water Department. EA2, a company out of St. Louis was given the contract by the City some years ago. The contract stipulated that so many new meters would be put in per month. When the meters would be changed out, often they would find what looked like brand new meters. These were changed over to meet the quota. What happened to these meters that were taken out? EA2 put them in the dumpsters to be sold for scrap metal. A waste of taxpayer's money while EA2 lined their pockets. I was told they bought new cars. All the while workers suffered. Jobs were eliminated. When a job required additional help, like shutting off water at a meter, requests for help did not come.

Then the City felt that they could save money and took on the management role. Now we have Johnson Controls *TAPE CHANGE* seeking a contract for management from the City. Over time we have had different types of reading the meters. With Johnson Controls implementing a new means, the cost would be 53 million.

They would bring in their own people that read the meters by fiber optics, maybe by driving down the street to get a reading or reading through the phone lines. The way the company can save is to hire their own people and eliminate meter readers, say 10 with their salary and benefits.

It would take a long time to recoup the 53 million.

I do know the morale of the Water Department workers right now is low. Some are choosing to retire early and those who are working are...just don't like their job.

President Robinson: Any comments? Berniece, as you heard, we have no control over this agreement.

Berniece Tirmenstein: *(Inaudible)*

President Robinson: Thank you. Ed Massey. You need to come to the podium please.

Ed Massey: You know, that was something to hear that City Council has no control over what's going to happen to the people that they, you know, elected to hold these offices and vouch for them, whatever, they have no control over what's going on in the City. That just don't...it don't fit right. If we are going to do it, let's do it together. They said on the meter change deal, like the lady just said, I wouldn't have said it. I was part of it and we have thrown away more money than we can, you know, we shake a stick at.

But as far as these meter changes, they can get done but you need the proper manpower to do this. We don't need Wi-Fi or whatever. Just like you said, if the meter had been changed properly, we wouldn't have had the problems. When we got ready to do this, they did it at their rate. They did it the way they wanted to do it. They tried to draw the money, you know, out of the City. So I'm saying, you know, if you think the system is working, say yes to everything. But I'm here to tell you, it's not. It's not working because people don't want it to work. They want to do it their way. And what we want to do is work in the best interest of the citizens of Evansville. That's what we want to do and I know that's what you're up here for, to work in the best interest of the people of Evansville. But doing the work, I can tell you, that this is crazy. We can *(Inaudible)* 60 thousand meters. We could have done this. We lost 40...44 men through attrition, come back and then you've got 10 more people, you know, just jobs done away with. Hey, after a while, you won't have no party. Do you know what we were told? You will become a maintenance department. And this is, you know *(Inaudible)* department; we deal with the public. We *(Inaudible),* go out there, a person's got a problem and you say you're going to save money by changing the meter, you aint going to do it because of the mere fact that the infrastructure is so rotten, I mean you can't do it. You're going to dump the water before it gets to the meter. And some people that are living in, you know, rental property or whatever, they have landlords that don't fix, we've got the poor people. They say, "Well, we are going to *(Inaudible)* the 5/8 meter, you know, that's not a big deal. Our real concern is, you know, the industrials. I understand that in one sense of the word. If you want industrials, you want to put them on Wi-Fi, do that. You want to be...if you want to *(Inaudible)* that, do that, put them on Wi-Fi and see if it does you any good.

But to take the whole city, do away with seven jobs, whatever, more jobs I should say, no, I don't think we should. That's it.

President Robinson: Thank you. Is there anyone else on Council? Anyone else with any comments or questions?

Did you fill out a paper? Okay. Please make this brief.

Steve Rogers: Thank you Madam President. Steve Rogers with AT&T. I will keep it short, I know you've been here a while.

First of all I just want to recognize the City's embrace of technology here. I think the Smart City project is worthy of discussion. Not here really to involve ourselves in that.

But one aspect of it, the fiber ring, which I think you've been talking a little bit about, we are interested in. There have been a lot of arguments put forward for the fiber ring mostly having to do with economic development and I think if you look at those in a little bit more detail, you see they really don't support what they're proposing.

I think the Johnson Controls folks here acknowledge that the fiber ring, and its construction, what they're trying to deploy here, all the locations that they are trying to connect with the fiber ring, there is far more capacity in that fiber ring than they really need to do what they're trying to do. *(Directed to Councilman Friend)* I think your observation about drinking from a fire hose is pretty apt. I think it's like buying a Ferrari when maybe you really just need a Buick.

You also talked about tech obsolescence. I think that's a great point and obviously the City, I think, is wise to consider what future needs might be down the road. But I think the fiber ring is kind of overkill because we already have facilities in the ground right now that can meet the needs of the Utility and if they do want to future proof it...you know I'm not in sales and I probably should have had someone from our sales team here. And we'd be happy to sit down... I think Mr. Mounts indicated we are going to meet with them and we look forward to that and we'll share the results of those discussions with you but if they do want to go beyond what the bandwidth needs are for those locations today and think about the future, I think you'll find that there are other ways to that that are far cheaper than what's being proposed here.

You know all these economic development arguments that are being made, I think, you know, Mr. Wathen refers to a couple of studies that were done. One is the Garner report. That data is two years old. Two years in the technology business is a lifetime. You know what's happened in the last two years is AT&T has spent several million dollars rolling out 4G LTE wireless broadband in this community. That never existed when the Garner report, you know, criticized broadband availability here. So what that means is people in Evansville have a ubiquitous, very high speed, wireless broadband connection that actually a faster broadband than the wired connections that were being studies with the Garner report was done. So lots of things have happened. That Garner report doesn't reflect what's going on here in Evansville at all.

References were also made to the Nation Broadband Map. You know, we've looked at that data and there are lots of ways to slice and dice the data that came out in the National Broadband Map. I think Mr. Wathen talked about Evansville ranking comparatively low. I don't remember what the numbers were. I don't know what he specifically said but I think when we looked at the report, we actually found that Evansville, or Vanderburgh County, ranks 169th out 3234 counties in broadband speeds available. So, in other words, Evansville's in the 94 percentile, doing better

than 94% of America, according to the National Broadband Map. There are lots of ways you can measure it. Admittedly it's difficult when you are trying to assess whether you are in good shape in broadband deployment but we could not manipulate that data to come up with anything that says that Evansville is doing poorly.

But I guess the point is, whether you think Evansville is doing well or lagging American, it's really irrelevant because this fiber ring is not going to have any impact on that whether they construct it or not because the IURC has said they don't want you to do the Wi-Fi. That's the only thing that was in this that's going to have any impact of the availability of broadband to residents here.

There has been some talk about South Bend and their experience with building fiber rings. I'm not going to repeat everything that's in my written testimony there to you but there has been, I think some misleading characterizations about what happed there and what the results have been. The typical government owned network, you know, the health care facility that saved all kinds of money in South Bend. Maybe they did, I don't know but that's not the typical experience when you're talking about government owned networks. They, you know, the government typically cannot build a broadband network any cheaper than a private provider can. They don't have the skill, they don't have the expertise and the typical experience is it ends up costing far more to build, maintain, operate than they ever anticipate, and certainly a lot more than it does when a private provider does it.

So if there are savings, and again, I'm not speaking on this proposal here, but typical government owned broadband network, if there are savings to end users, it's not because of increased competition or because they had the magic secret on how to build it better and cheaper. The savings are to end users because taxpayers are subsidizing the lower rates. The rates are artificially low because taxpayers, or Utility ratepayers, are subsidizing them.

And I'm not, again, I know this is different because we are talking about savings so it's not savings financing this construction so it's not the same thing. I'm just saying typically when people talk about municipal owned broadband networks as being some kind of panacea, they really aren't.

Finally I just want to talk about what's going on at AT&T right now. We are in the middle of some pretty revolutionary changes. I mean our business is always changing but we are in the process now of converting our network from one that provides what we call POTS, Plain Old Telephone Service, to an all IP network of the future. We are going to spend significant money, 14 billion dollars, nationwide, over and above what we normally spend to make this network the network of the future.

So, what are we going to do? We are going to build more 4G LTE wireless broadband, bring it to the vast majority of American, we are going to invest money to build fiber, what you are talking about here, we're going to build fiber to 50% of the business multi-tenant buildings in American. We are going to build IP DSlam technology, which is a lot of letters but what it really means is your home broadband connection is going to get a lot faster and the reach of those faster speeds is going to be a lot farther than it is today.

So we are going to invest 14 billion dollars and now would seem to be an inopportune time for a community to be making an investment in a fiber ring that's going to impair the ability of those investments to compete.

Councilwoman Brinkerhoff-Riley: Let me ask you a question.

Steve Rogers: Sure.

Councilwoman Brinkerhoff-Riley: So we don't...what I hear you saying is that basically we don't need to lay this fiber optic ring, that frankly we could install these automated meters in then frankly go on the internet and read them.

Steve Rogers: Yeah, I don't know. I'm not an expert in the automated meters and what they're proposing but what I'm told by our sales folks is what the fiber ring proposes to do is to connect some number of locations to collect some data. We have facilities in the ground today that they would essentially be overbuilding in order to do that and not only would they overbuilding existing facilities of a prior provider but they would be putting in far more bandwidth at far greater costs than is actually necessary to collect the data that would be needed by the Utility.

So I'll just close by saying, you know, we believe in this community, I mean we love Evansville. We have a great relationship with the City. We've proven, you know, that we feel this way about this community. We located a call center here, as you probably know, a few years ago, employing 600 residents in high paying, high skilled jobs. The business climate is great here. We have a great workforce here and we look forward to continuing a partnership that we think is a really good one. Thank you.

Councilman O'Daniel: I just have one question. No, not for yourself. I don't know if it would be for Allen...on the construction phase of this...I mean we're talking about a ring. This isn't just a *(Inaudible),* it's a loop of the City. What are we looking at as far as where it goes and how it's laid and those sorts of thing? I mean, I don't know...cause conceptually I don't really know where that goes.

Mike Pope: Yeah, It's part of our package that we're going to send you...

Councilman O'Daniel: Okay.

Mike Pope:...with some of the examples. I'll include that map but for me to try to tell you...I'll just include the map and you'll have a detailed location.

Councilman O'Daniel: Okay, that's probably a good idea. Okay.

Mike Pope: One quick question to Mr. Friend, or one quick comment. When we talk about the speed, when we look at the bandwidth that's in the actual fiber, the scalable portion goes into the facility side. We are only scaling it to the Utility usage right now in four or five locations so I don't want you to think that everybody has that available to them. It's only available when you connect into that system so we haven't overbuilt the system; we built it specifically for the needs of the Utility for SCADA, meter reading and those types of things and that what that fiber is for. It's when you get into hardware piece that goes from 100 meg to 10 gig, or whatever you want to do, and that's only, again, for four or five locations. So I don't want you to think that we built

this system so that you've got this unlimited power everywhere. That is incremental and that's in case you want to use it for other things, it's now automatically built into it right now so you will have the capability to build it out to provide, again, the 10 gig speed for other locations as you see fit. That is not in the current plan right now but again, the incremental cost, I just checked, was about 250 thousand to run the fiber so that you have the opportunity to go up to that speed if you choose. So if you don't need to use that, again, that's in the hardware piece of it.

But I'll send you the map along with that package of information so…okay.

MISCELLANEOUS BUSINESS

President Robinson: I want to thank the Administration for *(Inaudible)* and at this time we'll have Miscellaneous Business. There will not be a Meeting of the City Council next Monday, May 6, 2013. The next meeting of the Common Council of the city of Evansville will be Monday, May 13, 2013 at 5:30.

COMMITTEE REPORTS:

FINANCE COMMITTEE: — **CHAIRMAN JOHN FRIEND**
Re: Ordinance F-2013-4 — Appropriation, transfer, repeal and
Date: May 13, 2013 — and additional appropriation of funds.
Time: 5:20 p.m.
Notify: Russell G. Lloyd, Controller

PUBLIC WORKS COMMITTEE: — **CHAIRMAN O'DANIEL**
Re: Ordinance G-2013-6 — Approving an ordinance to vacate a public
Date: 5-20-13 — way or place (a portion of the northern most
Time: 5:20 p.m. — lane of Division St. between Oakley and Mary St.
Notify: Steven Krohn — Berry Plastics)

A.S.D. COMMITTEE: — **CHAIRWOMAN RILEY**
Nothing scheduled at this time.

ADJOURNMENT

President Robinson: Thank you. Can I have a motion for adjournment?

Councilman O'Daniel moved and Councilman Adams seconded the motion to adjourn.
Voice Vote. So Ordered.

Meeting adjourned at 7:50 p.m.

Laura Windhorst
Laura Windhorst, City Clerk

Constance Robinson
Constance Robinson, President